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NOVEMBER 1979

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Hans F. Sennholz

There Is No Escape

THE Carter energy plan contains a familiar ingredient: it takes money from the working taxpayers to give to the nonworking population. It proposes a windfall profits tax on oil producers and a fuel subsidy to poor consumers. When enacted, it may introduce "fuel stamps" just like "food stamps," to enhance the lives of some 25 million people who are believed to be poor.

Transfer programs now comprise the lion's share of the federal budget. During the past decade transfer payments grew by almost 300 per cent, while wages and salaries rose by 134 per cent. In 1970 these transfer payments amounted to $57 billion; in the federal budget for 1980 they are estimated to exceed $226 billion. How much longer can the transfers grow at twice the rate of the earnings that are supporting them?

Surely, the political transfer process cannot continue to grow indefinitely. There are limits of economic output as well as political power to seize an ever-larger share of income from the producers. But above all, the very nature of the transfer society, which is social and economic conflict, sets limits to the transfer process.

It is a strange twist of contemporary morality that political conduct is judged by far lower standards than are the acts of individuals. Men who would not think of stealing or pillaging the property of others—who would rather suffer deprivation

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than to enrich themselves by such methods—believe that politics justifies all means. They engage in confiscatory taxation, devious inflation, and restrictive regulations in order to facilitate the transfer of income and wealth. Their political leaders, anxious to be the favorites of the transfer multitudes, yield to their prejudices, desire what they desire, and furnish the sophistry that will propagate and defend those desires.

Social Conflict

The transfer society is a conflict society in which the beneficiaries of transfer are ever eager for rapid progress while the victims bitterly oppose every step of the way. The transfer battle is fought in all media of communication and education and on the floors of the legislature, where, in a democratic manner, the majority of representatives decide the issue. But all decisions are just temporary as the political battle continues. In every session of the legislatures, whether they are national, state, or local, the transfer process needs to be fed by new appropriations and allocations, and new victims need to be found in order to bestow new benefits.

A great deal has been said and written about the psychological, social and economic consequences of the transfer. Most political discussions today hinge on this issue. The beneficiaries and their friends applaud the effects and laud the policies that facilitate the distribution. The victims, on the other hand, point at many deleterious effects not only upon themselves but also upon the beneficiaries. Both sides advance arguments of ethics, politics, economics, psychology, history, and many others, in order to sustain their position. Both talk about liberty and justice for all.

The Rush to the Exits

Whatever we may say about the consequences, there cannot be any doubt that the victims of the transfer system react by seeking to escape. They become refugees in their own country, dismayed and frightened, always on the run from agents of the transfer society. They spend countless hours searching for avenues of escape that promise relief and salvation. Many spend their time and effort pursuing the legal loopholes, no matter how narrow and awkward they may be. Others seek their escape on illegal bypaths that are mined by fines and imprisonment. A few get caught in an intricate net of rules and prohibitions which government is spinning continually around its intended victims.

The direction of escape is determined by the policy of expropriation conducted by the transfer government. It may seize income and wealth through confiscatory taxa-

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tion, devious inflation, and restrictive rules and regulations. The victims seeking refuge from them all, rearrange their efforts to reduce their burdens. They seek to realize income that is tax exempt, or utilize additional tax exemptions, deductions and tax credits, shift incomes to various types taxed at lower rates, or simply postpone the tax for various periods of time. They shun savings and investments that are depreciated by inflation and seek refuge in investments that are said to be inflation proof. They buy real estate, precious metals or other tangible assets that hopefully appreciate in value. And finally, the businessman who faces regulatory inequity searches for loopholes or, if none can be found, may discontinue his production or otherwise readjust it in order to minimize the regulatory results.

Many refugees from the transfer system pride themselves on their prowess in all matters of escape. They attend "survival seminars," subscribe to advisory services specializing in survival behavior and investments, and otherwise prepare for the breakdown of the transfer order. Some escape artists may even amass sizable fortunes on their way to the social exits. But they are neither prudent nor bold, and surely no heroes in any sense of the word. They are running from the battlefield of ideas on which our future is decided. They are deserting, although the battle is still raging and there is no safe hiding place anywhere.

Getting Your Share

Many victims also try to get even by joining the class of beneficiaries. While chafing under the heavy load of progressive taxation and rampant inflation, they are getting in line for any and all favors the transfer government may extend. The businessman who is suffering from confiscatory taxation and restrictive regulation lobbies for government orders and contracts, for urban renewal or other HUD-subsidized housing projects. The doctor who pays maximum income-tax rates and loses his Keogh-plan savings to inflation clamors for a federal grant to his favorite hospital or for higher federal outlays for health professions training. The attorney or accountant, the professor, minister or rabbi, in fact, all primary victims of taxation and inflation send their children to public schools or state universities where government pays the lion's share of the educational expenses. And upon retirement, they all are looking forward to the generous benefits of Social Security. After all, they contributed so long to the transfer system, why should they not avail themselves of everything to which they are legally entitled?

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In the end, no one knows with certainty whether he has lost or gained from the transfer system. Everyone is waiting for his turn at the public trough, which continues to enjoy popularity and respectability. In the line are to be found some of the primary victims, moaning and complaining about the burden they are expected to carry. But their very presence in the line casts doubt on the sincerity of their complaints, while it gives moral sanction to the waiting line and the benefit trough.

Defending the Mainspring of Economic Well-Being

The true defenders of individual freedom and a peaceful social order neither scramble for the exits nor stand in line for their share of the loot. They do not spend their waking hours scheming and plotting their escape. They are in the midst of the ideological battle. With all their strength and courage they are resisting the transfer order, rejecting its temptations and refuting its spurious arguments.

They readily admit that private income and capital must be preserved for current production and future employment. They even emphasize the moral obligation of the present generation to preserve and promote the economic well-being of future generations. But what would it profit our heirs to inherit our material riches if they lacked the freedom and morality that are the very mainspring of those riches? In the long run, economic prosperity without this mainspring will wither and die like seed sown upon stony ground.

The United States is the ideological, economic, and military bastion of Western freedom and civilization. If it fails, for any reason, civilization must perish. There is no escape.

IDEAS ON LIBERTY

A Defensible Social Ideal

THERE is but one defensible social ideal, and that is a world in which every individual is free to work out the inner impulses of the Spirit, without aggression on his part or interference on the part of others. A State which accomplished this simple, primal duty, the protection of all its citizens, would accomplish something greater than has yet been historically recorded, and something which no State, preoccupied with illegitimate and paternalistic activities, is ever likely to accomplish.

HANFORD HENDERSON, "Hands Off"
from The North American Review, December 1924

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Lawrence W. Reed

The Fall of Rome and Modern Parallels

THERE'S an old story worth retelling about a band of wild hogs which lived along a river in a secluded area of Georgia. These hogs were a stubborn, ornery, and independent bunch. They had survived floods, fires, freezes, droughts, hunters, dogs, and everything else. No one thought they could ever be captured.

One day a stranger came into town not far from where the hogs lived and went into the general store. He asked the storekeeper, "Where can I find the hogs? I want to capture them." The storekeeper laughed at such a claim but pointed in the general direction. The stranger left with his one-horse wagon, an axe, and a few sacks of corn.

Two months later he returned, went back to the store and asked for help to bring the hogs out. He said he had them all penned up in the woods. People were amazed and came from miles around to hear him tell the story of how he did it.

"The first thing I did," the stranger said, "was to clear a small area of the woods with my axe. Then I put some corn in the center of the clearing. At first, none of the hogs would take the corn. Then after a few days, some of the young ones would come out, snatch some corn, and then scamper back into the underbrush. Then the older ones began taking the corn, probably figuring that if they didn't get it, some of the other ones would. Soon they were all eating the corn. They stopped grubbing for acorns, and roots on their own. About that time, I started building a fence around the clearing, a little higher each day. At the right moment, I built a trap door and sprung it. Naturally, they

Mr. Reed is Assistant Professor of Economics at Northwood Institute, Midland, Michigan. This article is from a speech before the annual meeting of the Michigan Association of Timbermen, Gaylord, Michigan, April 21, 1979.

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squealed and hollered when they knew I had them, *but I can pen any animal on the face of the earth if I can first get him to depend on me for a free handout!"*

Please keep that story in mind as I talk about Rome and draw some important parallels between Roman history and America's situation today.

Roman civilization began many centuries ago. In those early days, Roman society was basically agricultural, made up of small farmers and shepherds. By the second century B.C., large-scale businesses made their appearance. Italy became urbanized. Immigration accelerated as people from many lands were attracted by the vibrant growth and great opportunities the Roman economy offered. The growing prosperity was made possible by a general climate of free enterprise, limited government, and respect for private property. Merchants and businessmen were admired and emulated. Commerce and trade flourished and large investments were commonplace.

Historians still talk today about the remarkable achievements Rome made in sanitation, public parks, banking, architecture, education, and administration. The city even had mass production of some consumer items and a stock market. With low taxes and tariffs, free trade and private property, Rome became the center of the world's wealth. All this disappeared, however, by the fifth century A.D., and when it was gone, the world was plunged into darkness and despair, slavery and poverty. There are lessons to be learned from this course of Roman history.

Why did Rome decline and fall? In my belief, Rome fell because of a fundamental change in ideas on the part of the Roman people—ideas which relate primarily to personal responsibility and the source of personal income. In the early days of greatness, Romans regarded *themselves* as their chief source of income. By that I mean each individual looked to himself—what he could acquire voluntarily in the marketplace—as the source of his livelihood. Rome's decline began when the people discovered another source of income: the political process—the State.

When Romans abandoned self-responsibility and self-reliance, and began to vote themselves benefits, to use government to rob Peter and pay Paul, to put their hands into other people's pockets, to envy and covet the productive and their wealth, their fate was sealed. As Dr. Howard E. Kershner puts it, "When a self-governing people confer upon their government the power to take from some and give to others, the process

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will not stop until the last bone of the last taxpayer is picked bare."

The legalized plunder of the Roman Welfare State was undoubtedly sanctioned by people who wished to do good. But as Henry David Thoreau wrote, "If I knew for certain that a man was coming to my house to do me good, I would run for my life." Another person coined the phrase, "The road to hell is paved with good intentions." Nothing but evil can come from a society bent upon coercion, the confiscation of property, and the degradation of the productive.

In 49 B.C., Julius Caesar trimmed the sails of the Welfare State by cutting the welfare rolls from 320,000 to 200,000. But forty-five years later, the rolls were back up to well over 300,000. A real landmark in the course of events came in the year 274. Emperor Aurelian, wishing to provide cradle-to-grave care for the citizenry, declared the right to relief to be hereditary. Those whose parents received government benefits were entitled as a matter of right to benefits as well. And, Aurelian gave welfare recipients government-baked bread (instead of the old practice of giving them wheat and letting them bake their own bread) and added free salt, pork, and olive oil. Not surprisingly, the ranks of the unproductive grew fatter, and the ranks of the productive grew thinner.

I am sure that at this late date, there were many Romans who opposed the Welfare State and held fast to the old virtues of work, thrift, and self-reliance. But I am equally sure that some of these sturdy people gave in and began to drink at the public trough in the belief that if they didn't get it, somebody else would.

Someone once remarked that the Welfare State is so named because, in it, the politicians get well and *you* pay the fare! There is much truth in that statement. In Rome, the emperors were buying support with the people's own money. After all, government can give only what it first takes. The emperors, in dishing out all these goodies, were in a position to manipulate public opinion. Alexander Hamilton observed, "Control of a man's subsistence is control of a man's will." Few people will bite the hand that feeds them!

Civil wars and conflict of all sorts increased as faction fought against faction to get control of the huge State apparatus and all its public loot. Mass corruption, a huge bureaucracy, high taxes and burdensome regulations were the order of the day. Business enterprise was called upon to support the growing body of public parasites.

In time, the State became the prime source of income for most people. The high taxes needed to fi-

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nance the State drove business into bankruptcy and then nationalization. Whole sectors of the economy came under government control in this manner. Priests and intellectuals extolled the virtues of the almighty emperor, the Provider of all things. The interests of the individual were considered a distant second to the interests of the emperor and his legions.

Rome also suffered from the bane of all welfare states, inflation. The massive demands on the government to spend for this and that created pressures for the creation of new money. The Roman coin, the denarius, was cheapened and debased by one emperor after another to pay for the expensive programs. Once 94% silver, the denarius, by 268 A.D., was little more than a piece of junk containing only .02% silver. Flooding the economy with all this new and cheapened money had predictable results: prices skyrocketed, savings were eroded, and the people became angry and frustrated. Businessmen were often blamed for the rising prices even as government continued its spendthrift ways.

In the year 301, Emperor Diocletian responded with his famous "Edict of 301." This law established a system of comprehensive wage and price controls, to be enforced by a penalty of death. The chaos that ensued inspired the historian Lactantius to write in 314 A.D.: "After the many oppressions which he put in practice had brought a general dearth upon the empire, he then set himself to regulate the prices of all vendible things. There was much bloodshed upon very slight and trifling accounts; and the people brought provisions no more to markets, since they could not get a reasonable price for them; and this increased the dearth so much that at last after many had died by it, the law itself was laid aside."

All this robbery and tyranny by the State was a reflection of the breakdown of moral law in Roman society. The people had lost all respect for private property. I am reminded of the New York City blackout of 1977, when all it took was for the lights to go out for hundreds to go on a shopping spree.

The Christians were the last to resist the tyranny of the Roman Welfare State. Until 313 A.D., they had been persecuted because of their unwillingness to worship the emperor. But in that year they struck a deal with Emperor Constantine, who granted them toleration in exchange for their acquiescence to his authority. In the year 380, a sadly-perverted Christianity became the official state religion under Emperor Theodosius. Rome's decline was like a falling rock from this point on.

In 410, Alaric the Goth and his

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primitive Germanic tribesmen assaulted the city and sacked its treasures. The once-proud Roman army, which had always repelled the barbarians before, now wilted in the face of opposition. Why risk life and limb to defend a corrupt and decaying society?

The end came, rather anti-climactically, in 476, when the German chieftain, Odovacer, pushed aside the Roman emperor and made himself the new authority. Some say that Rome fell because of the attack by these tribes. But such a claim overlooks what the Romans had done to themselves. When the Vandals, Goths, Huns and others reached Rome, many citizens actually welcomed them in the belief that anything was better than their own tax collectors and regulators. I think it is accurate to say that Rome committed suicide. First she lost her freedom, then she lost her life.

History does seem to have an uncanny knack of repeating itself. If there's one thing we can learn from history, it is that people never seem to learn from history! America is making some of the same mistakes today that Rome made centuries ago.

In many ways, the American Welfare State parallels the Roman Welfare State. We have our legions of beneficiaries, our confiscatory taxation, our burdensome regulation, and of course, our inflation. Let me talk specifically about inflation, which I regard as the single most dangerous feature of life today.

Everyone says he is against inflation. Every president has his war on it. Yet it rages on. Why? For two reasons. One, most people, especially those in high places, don't really know what it is. And two, an inflationary mentality pervades our society.

Defining inflation properly is critical to our understanding of it. The typical American thinks inflation is "rising prices." But the classical, dictionary definition of the term is "an increase in the quantity of money." In this discussion, *changing the definition changes the responsibility!* If you believe that "inflation" is "rising prices," and then ask, "Who raises prices?" you'll probably say that "Business raises prices, so business must be the culprit." But if you define "inflation" as "an increase in the quantity of money," and then ask, "Who increases the money supply?" you are left with only one answer: GOVERNMENT! Until we understand who does it, how can we ever stop it?

Why does government inflate the money supply? By far the main reason is that people are demanding more and more from government and don't want to pay for it. This causes government to run deficits,

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which are largely made up by the expansion of money. It follows, then, that inflation will not stop until the American people restore the old values of self-responsibility and respect for private property.

Let me show you how our Welfare State mentality has ballooned the federal budget. In 1928, the federal government spent a grand total of $2.6 billion. In the current fiscal year, it will spend over $530 billion. The accumulated red ink for the past five years is over $200 billion.

I've cited on other occasions a welfare recipient's letter to her local welfare office: "This is my sixth kid. What are *you* going to do about it?" Implicit in that letter was the notion that the individual's problems are not really his at all. They're society's. And if society doesn't solve them, and solve them fast, there's going to be trouble. I submit that our economy can withstand a few thousand, or even a million people who think that way, but it cannot bear up under tens of millions practicing that destructive notion. Today, what business, what school, what union, what group of individuals is *not* either receiving some special favor, handout or subsidy from government or at least seeking one? There's no longer any reason to wonder why we have inflation.

According to Dr. Hans Sennholz of Grove City College, the development of the American Welfare State has come in two phases. In the first phase, roughly from the turn of the century to 1960, we relied mainly on ever-increasing tax rates to finance the expensive government programs. The top tax rate went from 24% to 65% under Herbert Hoover and to 92% under Franklin D. Roosevelt. The decade of the 1950s was one of stagnation under these oppressive, capital-confiscating rates. So we had to find a supplementary method to raise the needed revenue. The second phase of the Welfare State began in the 1960s, with a deliberate policy of massive, annual deficits in the federal budget and an addiction to the printing press. The demands to spend for this and spend for that, which I have mentioned above, have merely provided the fuel for these massive deficits.

America's dilemma is certainly of crisis proportions. We face collapse and dictatorship if inflation is not stopped and the growth of government is not checked. But Rome's fate need not be ours. Our problems stem from destructive ideas, and if those ideas are changed, we can reverse our course. A nation that can put a man on the moon can resolve to mold a better future. Let's reject the destructive notions of the Welfare State, and embrace the uplifting ideas of freedom, self-reliance, and respect for life and property.

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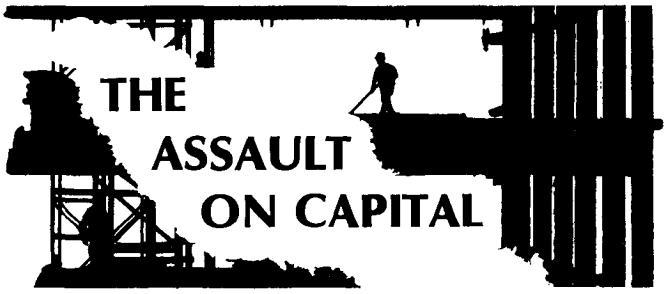
Robert G. Anderson



ONE of the sad political paradoxes of our times is the simultaneous assault on capital throughout the world and the continual clamor, often from the same sources, for greater worldwide prosperity.

Perhaps the affliction can best be described as "political schizophrenia." Political rhetoric extols the virtues of the good life and greater material abundance for humanity, and yet, in the next outburst, attacks the very foundation of such a society. The demagoguery and nonsense of such political outbursts are most discouraging to those who understand the economic policies required for human progress.

Mankind's evolution into the modern era of the industrial society was not an historical accident. It was, instead, the direct result of forces that brought into existence the private property order and its concomitant free market economy.

Mr. Anderson is Executive Secretary of The Foundation for Economic Education.

The market system of social organization opened to man the full potential of the social division of labor and the efficient employment of the scarce economic resources at his disposal.

The history of material progress relates directly to an increase in productive capacity. Material advancement for mankind simply means, "getting more goods out of the woods!" And from the dawn of human existence this process has been primarily accomplished through the substitution of capital for human energy in the means of production.

What distinguishes a so-called "rich nation" from a "poorer nation" is the abundance of productive capital employed in the social division of labor. The productive output of a worker moving dirt with his bare hands can hardly be compared with the accomplishments of a worker operating a giant bulldozer. The capital tools with which they work

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make the difference. While greater work effort and better work techniques have certainly contributed to greater productive output, the accumulation of ever-greater quantities of capital employed in production has been the essential "key" to prosperity.

The "key" to *greater* prosperity, therefore, is *more* capital. Societies become rich because individuals within the society become more productive. And this greater productivity of the individual is attainable only through the effective employment of more capital—multiplying the product of his efforts through the use of tools.

The assault on capital throughout the world today has become a direct attack on man's material prosperity. Even worse is the planned and systematic destruction, through political interference, of the institutions that are essential to the creation of capital. This combination of consuming accumulated capital and destroying any incentive to replace capital is leading to the impoverishment and suffering of millions of people throughout the world.

For an example of what is happening, look at the United States, the "richest" nation in the world today in terms of the material well-being of the people. It attained this enviable status as a result of a lengthy historical record of being "friendly" to the accumulation of capital. Throughout the nineteenth and early twentieth centuries, millions of individuals were drawn to the United States by the vast opportunities for personal economic advancement.

Phenomenal Growth

From the period following the end of the Civil War in 1865 until the beginning of World War I, unbelievable change and advancement took place in the United States. The degree of individual freedom that prevailed during this period led to an expansion of economic activity and an accumulation of capital unmatched in human history. Neither before nor since has a more rapid rate of growth been experienced by a group of people than during the twenty years from 1870 to 1890 when the real incomes of the people more than doubled.

During this same period of phenomenal growth in prosperity, entire new industries were born. The oil industry, railroads, electricity, and modern steel making are among the better known examples. Methods of agriculture, which had remained unchanged from the dawn of history, were radically altered. The introduction of capital equipment vastly increased the productivity of the individual farmer in the planting and harvesting of his crops.

This remarkable era of economic freedom and improvement also

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brought other changes in the structure of life and industry. The productive employment of increasing quantities of capital literally annihilated many ancient and established industries. We may look back now with amusement at some of the individual failures that occurred in those early days, from the prairie schooner to the pony express. But with the individual's freedom to fail came also the chance for success. Man's creative energies were unleashed in such a setting of economic freedom, and the outcome was a material progress that became the envy of the world.

Reaction to Change

In 1859 Colonel Edwin Drake successfully drilled for oil in Western Pennsylvania, and the petroleum industry was born. The subsequent competition of kerosene took a heavy toll on the whaling industry of New England. But what electricity later did to the candlestick makers, and the internal combustion engine did to the blacksmiths and horsebreeders was even more devastating to the old ways. The changes imposed by economic progress were dramatic, to say the least.

The point is that this entire transformation of society was made possible only because individuals possessed economic freedom, and were able to freely accumulate and employ the needed capital to compete against existing industry. And while greater prosperity was a direct result, so too was the demise of the old ways. The price of prosperity is always change, and for many the price seems too high.

A reaction to such rapid change may have been inevitable. In any event, such a reaction has been most evident in the United States during these past fifty years. Powerful political forces have assaulted, directly and indirectly, both individual freedom and private property in an attempt to "preserve" the status quo. Disguised as "progressive programs" to benefit "the people," political intervention is consuming the wealth of the citizenry and hampering the incentive to replace it.

The source of the wealth and material abundance of the United States citizen today is to be found in the accumulations of private capital made possible in an earlier era. The continued prosperity stems from the momentum of the past, not from the political intervention of recent years. The losses of individual freedom have been so gradual and subtle that perhaps only within the past decade are there clear signs of a declining standard of living.

It is of the utmost urgency that this development be seen. Given the dynamic history of economic freedom and prosperity that was once the hallmark of the United States, the identity of these recent destructive

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forces must be disclosed—at home, as well as abroad. The people of other nations, who would emulate the United States, otherwise might misconstrue these forces to be the causes of our wealth today. To pattern political intervention after the example of the United States government today would be nothing less than a human tragedy. The resurrection of individual liberty and continued material prosperity demands the repudiation of this intervention, and not its expansion.

Capital Accumulation

The "key" to prosperity is capital. To consume more, a people must first produce more, and to produce more requires more and better tools. Real economic growth is a direct consequence of ever-greater quantities of capital being employed in the tools of production.

The greatest service a government can render its citizenry is to safeguard and encourage this process of capital accumulation. Protecting the lives and property of citizens by keeping the peace is absolutely vital to an orderly society. The law thus serves as an instrument of justice. Such a government has always enjoyed the popular support of its citizenry, for in a society of peace and harmony, the individual citizen is freed to produce and serve the consumer through the market.

In the United States today government is far more engaged in plundering property and controlling people's lives than in pursuing its traditional role of protecting life and property. In the name of "progressive government," we see the law being used in the most reactionary way to destroy private capital and human liberty.

The accumulation of capital requires both productive effort and saving on the part of individuals. There is an old adage that "anyone can make money—it's keeping it that is difficult." The point is that saving rather than consuming will occur only if there exists an incentive to do so. Production and saving requires the personal sacrifice of not consuming. Only when the potential for greater future consumption can be clearly seen from saving and working today, will individuals willingly produce and save. As the theoretical economist usually states it,—"all other things being equal, leisure and consumption are preferred over work and saving!"

Government intervention in the United States during the past fifty years has time and again undermined this process of production and capital accumulation. While no one law or policy can be isolated as the cause of our lost freedoms and falling standard of living, the combined intervention is generating a burden that is destroying the material welfare of society.

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The manner of government's assault on capital is varied, but of all these actions, nothing inflicts more damage on productive effort, saving, and capital accumulation than a policy of monetary inflation. The insidious effects of inflation disrupt the entire pricing structure of the market, the sole guide for the actions of traders in the marketplace.

The destruction of money through a policy of inflation consumes every form of monetary saving. Individuals quickly learn the bitter consequence of conserving money in the form of bonds, savings accounts, or cash balances. Monetary holdings of liquid capital become nothing but certificates of guaranteed confiscation of wealth.

Inflation Disrupts Market and Consumes Capital

The disruption of the price system through inflation generates awesome losses of capital. Both consumers and producers are led into economic chaos. The false signals of inflated prices alter the allocation of economic resources in production and encourage artificial levels of consumption. The ultimate result is a general impoverishment, as capital is taxed and destroyed.

Inflation imposes a heavy penalty tax on productive activity. Any incentive to employ capital in productive activity is soon lost to the urgent necessity of preserving what little capital remains. Individuals turn to speculation in an effort to survive.

The result is not economic survival, but instead market disruption and capital consumption. Money markets no longer perform the function of serving producers and consumers, but instead become devices for speculators. Long-term capital markets vanish with the creditors, as everyone tries to become a debtor. The order of the day in an age of inflation is to consume capital in "things" before it is consumed by the ravages of inflation.

Inflation's message is clear to all. Increase consumption, save nothing. The outcome is the inevitable destruction of accumulated capital with no incentive to replace it. The tragic price is lost prosperity.

While inflation is one of government's oldest weapons in the assault on capital and productive effort, it is by no means the only tool of such destruction. A multitude of laws, edicts, and policies are joined in the attack.

In the United States, modern tax theory often is more concerned with penalizing capital or redistributing wealth from savers to spenders than with the acquiring of public funds. The federal inheritance tax is a classic example of such a practice, many larger estates being wholly consumed by the tax rather than transferred to the heirs.

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The accumulation of private capital and its productive employment is the cornerstone of an advancing market economy. Inheritance taxes have consumed untold billions of dollars that would otherwise have been productively employed. Productive individuals are left with no choice but to consume their wealth. Luxury cars, fancy yachts, and exotic homes have replaced job-creating productive investments. Enjoy it today rather than have it taxed away tomorrow becomes the rule of productive people confronting such confiscatory tax policies.

The Impact of Taxes

The taxation of corporations is another weapon in the assault on capital. While a corporation, as a legal entity, can be a collector of taxes, the burden of corporate taxes must always fall upon the corporate owners, employees, customers, or some combination of these three. The corporation is merely an institutional entity productively employing the capital of its owners. The result of corporate taxation is a political transfer of capital away from private corporate use and productive employment.

The individual income tax is another example of a tax policy that is specifically structured to discourage productive activity and capital accumulation. The percentage rate of taxation on personal incomes is highly graduated, assuring an ever-larger seizure of the private capital of those who are most productive. Wealthy individuals are subject to a Federal income tax rate of up to seventy per cent, a rate that imposes a severe penalty on the expansion of productive capital and work effort.

Perhaps the most subtle tax against capital, in the sense that it silently erodes the personal incentive to save, is the social security tax. This tax transfers wealth from productive workers to the elderly members of society in retirement and thereby reduces the personal concern for one's welfare in old age. The expectation of a government source of income in later years thus leads to a reduction in personal savings.

But inflation and taxation are only the beginning of government's assault on productive capital. The competition for votes among politicians has led to a mass of legislation providing all manner of special-interest political largess. The redistribution of wealth through the political process has become firmly entrenched in the United States. Every sector of society is clamoring for more. Everyone is plundering everyone with the cry that, "we're paying for it, so let's get our fair share." The result is a society of political victims and beneficiaries, all using the political process to further consume private capital.

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Such a system breeds politicians rather than statesmen. Politicians, responding to a "now mentality" among voters, win elections. The statesman, expressing concern for the future consequences of such political plunder, is the loser at the polls. The result is that democracy becomes synonymous with demagoguery, a vehicle for the political plunder of capital.

The Welfare State

This political transformation is well illustrated in the United States by the growth of the welfare state. Vast quantities of capital are being transferred today through the political process from those who work to those who don't. Without exception, every welfare reform increases the individual's incentive to choose leisure over work. Low-productivity labor is literally priced out of the market by the welfare benefits from the state.

The withdrawal of welfare recipients from the labor market stalls the further creation of capital. The heavy burden upon the productive persons who support the welfare programs again drains the capital so essential to progress. The bias against work and against the productive employment of savings is a built-in wedge hampering economic growth.

The final assault against capital, and against the very structure of the market economy itself, comes by way of direct controls upon prices and wages. As long as market prices remain free to reflect the actions of traders, the market can absorb massive doses of hostile government intervention. The assault against capital from inflation, taxation, and the redistribution of wealth through the political process certainly reduces the magnitude of productive capital, and thus the material standard of living. But these forms of government intervention do not in themselves destroy the essence of the market process.

The imposition of direct wage and price controls, however, terminates the market price system of allocating economic resources. The economic freedom of buyers and sellers to engage in voluntary exchange on their own terms is denied. The result of such government intervention is the massive destruction of capital and productive effort.

There is, of course, even under wage and price controls, some escape from the economic chaos that the controls inevitably generate. The escape route is by way of "black markets." While "black markets" are merely the practice of freedom of choice among traders when their liberties have been denied by the state, such illegal markets can never attain the efficiency of free and open competition.

A point to remember about

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government-imposed wage and price controls is that governments don't control wages and prices, they control people. A price or wage control is simply a disguised way of denying the voluntary choices of traders. The establishment of government-imposed prices or wages below or above the market rate assures either shortages or surpluses, and the loss of freedom.

With a government biased against capital, the direct controls are nearly always established below the market for prices, and set above the market for wages. The result is the certain destruction of capital productively employed and the creation of a permanent barrier to new productive activity.

Wage and Price Controls

The imposition of wage and price controls by government always creates an allocation crisis. In the United States today an "energy crisis" exists in the form of uncertain gasoline supplies. The reason is simply explained. The price of retail gasoline is established by government rather than by the voluntary actions of buyers and sellers. And the government-imposed legal price is now less than market prices. With demand exceeding supply at this government-imposed price, arbitrary limits on gasoline sales and long lines before the pump are inevitable.

Price and wage controls symbolize the end of the market economy and individual freedom of choice. Such government interference transforms society from a nation of free traders into a society of regulated consumers and plundered producers. The imposition of direct controls upon the market process is truly the final assault on capital and the private property order.

Far advanced in the United States today is the economic chaos and destruction of capital that government inflicts upon society through inflation, taxation, transfer policies, and direct controls. There are serious threats of private property seizure through nationalization and the erection of economic barriers to international trade. The market economy which had brought forth prosperity in an atmosphere of peace and harmony is becoming a battleground of internal conflict. Bitterness and disillusionment are expressed everywhere one turns in the United States.

If the assault on capital continues, the result will be, not the good life that is enjoyed today, but conflict, hardship, and a return to poverty.

So the people of the United States stand at a point of decision—either to abandon the private property order for socialism, or to return to freedom and the free market. Two points must be clear. First, it must be understood that prosperity can

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only come through freedom, and second, that the political institutions of society must support this freedom rather than deny it.

Throughout the world are tens of thousands of individuals who understand this relationship between prosperity and freedom. In addition, literally millions of individuals have been the beneficiaries of the prosperity and material abundance market economies have provided. The world has seen and experienced the good life under freedom. It is inconceivable that such a system of social organization could ever be abandoned for the impoverishment and serfdom of socialism.

The intellectual arguments that have been advanced in defense of socialism are bankrupt. Socialism has been a dismal failure wherever tried or found. From the slaughtering of Kulaks by Stalin to the holocaust of Cambodia today, socialism has been synonymous with human misery and death. Socialism is not the wave of the future. It is the sickness of the past.

The way of the future is freedom. The assault on capital is too costly to be continued. There are signs that the intellectual tide has turned in favor of freedom. There are signs of dwindling support for overextended government, as individuals demand to be free.

Freedom will prevail because freedom works. The creative potential of individuals in sovereign control over their own lives and property is an established fact. The hampering of productive people through the assault on their capital will be repudiated. The failure of socialism and overextended government will be the great lesson learned from the twentieth century.

The people of the United States have enjoyed freedom of choice for over two hundred years, and it must never be forgotten that the market society they created was the generating source of the great wealth that exists today. The destruction of the market order, like any social order, occurs slowly. To mistake what is occurring in the United States today as a source of this nation's wealth and material abundance would be the ultimate human tragedy.

What good life still prevails is in spite of the government policies of these past fifty years, and not because of such intervention. A nation of great wealth may be able to sustain an assault on its capital for a while, but to the poorer nations of the world such an assault would be instantly fatal.

The lesson to be learned is simple. It is that the hope of the future is not to be found in government management of the economy. Future productivity depends upon the individual, and it can be brought forth whenever he is free.

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P. Dean Russell

THE ILLUSION BEHIND GOVERNMENT AID

In 1849, the French legislator, Frederic Bastiat, said that the French people are "the dupes of one of the strangest illusions which has ever taken possession of the human mind." He was referring to the belief that government itself is a primary source of goods and services that can be used to increase the material well-being of the people.

When we are dissatisfied with our lot, said Bastiat in his essay THE STATE, we turn to government to get the products and services we want. He listed various laws and programs-in-aid that the French people were demanding from their government in 1849. Among them were minimum wages, protection from competition at home and abroad, government funds at low interest, free professional education, lower taxes, disaster relief programs, subsidies for both agriculture and industry, old age pensions, and many similar programs that the French people thought their government should sponsor some 130 years ago.

Bastiat continued, "All of us are petitioning THE STATE in this manner. . . . But THE STATE has no means of granting privileges to some without adding to the labor of others."

Then Bastiat gave us this definition of government: "THE STATE is the great fiction through which everybody endeavors to live at the expense of everybody." He said that this "great fiction" was doing great harm to the French people and nation.

Could this absurd concept of government—everybody living at the expense of everybody else—ever become prevalent in the United States? Well, today more than 130 million Americans are *directly* dependent on tax dollars, in one form

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or another for at least a part of their incomes. That's more than half of us.

Included in the 130 million people who are now living at the expense of everybody are local, state, and federal employees and their dependents, armed forces personnel and dependents, everyone (and their dependents) receiving any form of *direct* cash payment from government, e.g., government pensions of all types and aid to families with dependent children.

Not included are recipients of Medicare and Medicaid, food stamps, and similar "in kind" programs. Including them would result in considerable double counting. Also not included are the millions of persons (and their dependents) who work for *private* companies under government contracts, even though the source of most of their incomes is government. Nor does the figure include the millions of foreigners who receive direct support from our taxes. Nor does it include those persons whose jobs are based indirectly on government aid programs, e.g., doctors who get a share of their incomes from Medicare patients. Thus the figure of more than 130 million Americans who are totally or partially dependent on government for their livelihoods is surely not exaggerated.

Understandably, the recipients and supporters of these government programs are quick to defend them on both economic and moral grounds, especially moral grounds. Shouldn't hungry children be fed? Shouldn't elderly people (most of whom paid Social Security taxes when they were younger) be maintained with some dignity in their old age? Do you begrudge a veteran his pension? Shouldn't farmers be guaranteed at least a mininum income through parity prices? And so on, through literally hundreds of similar government-administered programs that take resources from people who produced them and give them to people who didn't.

I'm not here either condemning or defending any of these programs; some of them do provide valuable services. I'm merely pointing out the fact that far more than half of us American people (130 million) are now living totally or partially at the expense of fewer than half of us (90 million). And the number of those who get the money (as well as the amount) is constantly increasing. At some point, the producers will simply refuse to support the nonproducers. In truth, they won't really have a choice in the matter; for there just won't be enough produced to go around.

I suspect that this breaking-point has already been reached. It's probably the primary reason for the increasing growth of the "subterranean economy" for exchanging our products and services. This non-

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taxed market system of exchange includes "moonlighting" electricians and plumbers and service people in all categories who take their pay in unrecorded cash. Estimates of the size of this cash-and-barter economy range from $200 billion to $300 billion, perhaps as much as 10 to 15 per cent of our Gross National Product—and it's growing rapidly. Most of the people who deal in this market are not crooks but law-abiding citizens who are trying to keep for themselves a reasonable proportion of what they produce. That's what the taxpayers are saying to the lawmakers when they vote for "proposition 13's," and demand that their state legislators also endorse a convention for the purpose of amending our Constitution to restrict taxes by putting a limit on federal government spending.

This strange illusion that we can live at the expense of someone else is, I'm convinced, the sole cause of the governmental programs and actions that, in turn, have brought on the disastrous inflation we have. It's simply impossible for all of us to live at the expense of all of us, or even for half of us to live at the expense of the other half. As Bastiat said, government is a construct, i.e., in the area of real goods and services, it produces nothing, but acts merely as a transfer mechanism. And since government produces nothing, it can't give anything to anyone (including even basic police protection) without first taking the required funds from someone else in one way or another.

The surreptitious transfer-method now increasingly favored by our leaders, i.e., taking goods and services *indirectly* from everyone by the concealed process of printing additional money to buy the goods from private producers, doesn't alter the basic process. In fact, since the added money doesn't represent any production at all, it makes the situation worse by driving up the price of everything that is produced.

The "strange illusion" identified by Bastiat some 130 years ago is at the heart of most of the social and economic ills we American people are now suffering. Before we can deal with our inflation, our shortages, and other related problems, however, we must first understand that our government can't really guarantee a material level of living to anyone—not permanently and with a reliable guarantee, it can't. When we finally accept that fact, we'll close down the government-owned and destructive "money machine" and take whatever measures are necessary to speed up the constructive and privately-owned "production machine" that is the only possible source of increased goods and services for the American people in general. ⊕

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Henry Hazlitt

The Case for the Minimal State

SINCE at least as far back as Plato, many of the world's great minds have devoted themselves to the problems of politics. But they have not come up with any answers that have satisfied more than a narrow and transient majority in some country here or there. Today there are about 150 national governments in the world; but no two operate on exactly the same principles. If a free expression of opinion could be obtained in any one country, it would probably be found that at least a substantial minority was unhappy with some important part of the existing political arrangement or its operation.

We may distinguish at least three major political problems, which have existed since the beginning of time:

1. Should there be a government at all, and if so, exactly what should be the extent and nature of its permitted powers? Should these powers be precisely specified and limited, or is there an indeterminate area between certain minimum and maximum powers that may safely be left to popular choice?

2. Once the proper limits to the province and powers of the state have been decided upon, how can we stop the politicians in office from using their existing powers to extend and increase their powers?

3. By what method should the holders of office and power be cho-

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sen? For what terms, and so forth? How should their individual powers be allotted and delimited; and what provision should be made to assure that they responsibly execute those powers and no others?

It will be noticed that the political problem is twofold. It is not only to find what the best arrangements would be for choosing or changing political leaders or their powers, but for assuring that these arrangements are adhered to. This is one of the chief reasons (if not the chief) why the political problem has almost nowhere been better than temporarily solved. The ambition of men for political power has immemorially led them not only to demagoguery and deceit, but to force, war and murder, to achieve and increase it. It is because of this that I have elsewhere raised the question whether the principal problems of politics are in fact solvable. ("Is Politics Insoluble?" *Modern Age,* Fall 1976.)

This is not on its face an encouraging quest. But the answer is so important for the future of mankind (let alone the immediate future of our own country) that we are bound to extend every effort to try to get as near to a workable solution as we can.

One promising procedure is to examine the answers that have been offered historically by the great political thinkers of the past to try to determine where they went wrong or what important problems they neglected to answer. We could do this chronologically beginning with the earlier answers, but I think it would be more interesting if we began with one of the latest answers and tried to find whether it satisfied us, and if not, why.

So I shall begin by examining the answer offered by Professor Robert Nozick of Harvard in 1974 in his book *Anarchy, State, and Utopia.* This book has attracted more attention than any other in the last five years that attempted to solve the problem of the proper province of the state. It won the National Book Award in 1975.

Away from Anarchy

Not least interesting about it is that it begins with a patient and open-minded discussion of anarchy—of the possibility of getting along with no government at all. It considers the suggestion of the New Anarchists, for example, that honest and peaceable citizens could solve the problem of protecting their property and persons by joining and paying dues to private protective associations. Nozick shows how there would tend to grow up competing protective associations, that some of these might be little better than gangster associations, that some would be stronger than others, that it would not give anyone

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adequate protection to become a member of one of the weaker associations, and that in time one association would tend to establish a monopoly. But if such an association had the power of excluding some people from membership, or failed to act with complete morality and impartiality, it would be intolerable. Hence society would be forced to adopt a "minimal" state.

Nozick announces his main conclusions on the very first page of his Preface:

"Our main conclusions about the state are that a minimal state, limited to the narrow functions of protection against force, theft, fraud, enforcement of contracts, and so on, is justified; that any more extensive state will violate persons' rights not to be forced to do certain things, and is unjustified; and that the minimal state is inspiring as well as right. Two noteworthy implications are that the state may not use its coercive apparatus for the purpose of getting some citizens to aid others, or in order to prohibit activities to people for their *own* good or protection."

Now, this conclusion, though it would be regarded as extreme not only by popular opinion but by the great majority of political writers in every country today, is one that has a respectable history, and will be regarded sympathetically by a large number of declared libertarians.

But I am troubled, most of the time, by the kind of arguments by which Nozick reaches his conclusion. Going a little further, I am frequently troubled by Nozick's style. It seems at times almost deliberately obscure. It is interrupted by diversions, digressions, parentheses, involutions, excessive footnotes—by a sort of self-heckling. He constantly confronts us with logic-chopping, with technicalities, and with abstractions without any helpful concrete references or illustrations.

Natural Law

Coming to problems of substance, I am bothered by his explicit rejection of any form of utilitarianism, and his attempt to substitute "natural law" justifications of his position. Here he seems to have been influenced by his Harvard colleague John Rawls—though he rejects Rawls' conclusions in many other respects. But as not only Nozick but an astonishing number of young libertarians have recently been taking this natural-law position, it is worth examining in some detail.

Nozick dismisses utilitarianism because his conception of it, like that of Rawls and others, is essentially a caricature. He sees the utilitarian as a fellow who judges conduct by its immediate effect on the balance of pain and pleasure, and makes a mechanical pain-

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pleasure calculus of the results of a particular action, without considering "justice" and other values. One or two of the older utilitarians may have been guilty of giving such an impression, but this has little to do with the doctrine in its modern form.

I have suggested in my book, *The Foundations of Morality* (1964, 1972), not only that the utilitarianism of Bentham, and even of Mill and Sidgwick, has been in important respects superseded, but that it would increase clarity of thought to abandon the old term entirely. I have recommended substituting the term "rule-utilitism" because it comes much closer to describing a satisfactory moral system.

We should not take or judge an action in accordance with what we think would be its consequences considered as an isolated act. Not only can we never be certain what such consequences would be, but with such a moral code (or lack of code) we would never be able to depend on each other's conduct, and we would fall far short of that social cooperation by which we most fully promote our own and each other's ends. Moral action, for the most part, is action in accordance with accepted *principles* or *rules*. It is only when each of us can be depended upon to act consistently in accordance with such principles or rules that we can depend on each other. It is only when we can rely on each other to keep our promises, to tell the truth, to refrain from theft, fraud and violence, and to help each other in emergencies, that we can best promote that social cooperation so essential to attaining our individual ends.

These moral rules evolved during the centuries, long before they were explicitly formulated or codified, and certainly long before any moral philosopher explicitly formulated any single rationale or test by which good rules could be distinguished from bad ones or the best from the second best. But the doctrine of utility, first put forward by David Hume and later elaborated by Bentham, Mill, Sidgwick, and others, was the first test that unified and clarified the whole area of morals.

The Pleasure-Pain Balance—An Unsolved Problem

The first attempts to generalize the proper aim of all moral rules—such as rules conducive to promoting "the greatest happiness of the greatest number," proved to have some awkward shortcomings. Was the goal of "pleasure" or "happiness" sufficiently inclusive? Or sufficiently noble? And when an action promoted one man's happiness—or even a hundred men's happiness—but at the cost of another man's pain or misery, by what kind of moral

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arithmetic could we determine the net balance? The utilitarians have never satisfactorily solved this problem—but neither has anybody else. Fortunately, because an acceptable moral code prescribes principles or rules of action rather than particular acts, there are very few occasions when the need for such moral arithmetic seriously arises.

More important than this, rule-utilitists are not necessarily bound by any pain-pleasure principle, or even any happiness-maximizing principle. They can simply accept as the principles of moral action those rules that would lead to the most satisfactory or desirable results for society, without trying to be more explicit as to the exact way of measuring such results. Anti-utilitists, rejecting such a criterion, would then be obliged to contend that their substitute criterion should be applied instead, even though it admittedly prescribed moral rules that would lead to less satisfactory or less desirable results for society.

Justice and Utility

One favorite contention of some anti-utilitists is that the utilitist criterion must be abandoned because it does not include "justice." That this contention is being seriously pressed today is odd historically, because John Stuart Mill devoted the whole last third of his famous essay *Utilitarianism* in 1863 to discussing "The Connection Between Justice and Utility." He concluded that: "Justice is a name for certain moral requirements, which, regarded collectively, stand higher in the scale of social utility, and are therefore of more paramount obligation, than any others."

But those who make "justice" the supreme if not the sole criterion of moral judgment regard it as a requirement that must be met for its own sake, regardless of what consequences it may lead to. The motto of these people is: *Fiat justitia, ruat caelum:* "Let there be justice, though the heavens fall." But the real reason for insisting on justice is to prevent the heavens from falling.

Those who insist that justice is solely an end in itself, and never a means to social peace and cooperation or other ends beyond itself, are also nearly always those who take a simplistic view of it. Everybody is supposed to know what "justice" is: it is simply "fairness", and we all know what is "fair." But through the centuries it has been the main function of thousands of legislators and jurists to decide what is justice both in abstract types of cases and in particular cases and circumstances.

Most of the non-utilitists and anti-utilitists in the past have been champions of Natural Law. The doctrine of Natural Law, it is true, has a very respectable history. It was

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promulgated or accepted by Plato and Aristotle, by the Stoics, by St. Thomas Aquinas, by Hugo Grotius and Samuel Pufendorf, by John Locke, by Jean-Jacques Rousseau, and by some of the Founding Fathers when they drafted or defended the American Constitution. But it has always owed a large part of its appeal to its ambiguity. The physical laws of nature, of cause and effect, determine everything, including, in one sense, human action. But this is something quite different from "natural laws" that are supposed to *prescribe* how men should conduct themselves.

A Nebulous Concept

The central difficulty with Natural Law is that no two of its votaries seem to have been able to agree regarding precisely what it enjoins. For Aristotle it sanctioned the subordination of women to men and of slaves to Athenian citizens. For the Stoics it prescribed equalitarianism. For many it meant the plain dictates of "right reason," though nobody could quite agree regarding what right reason prescribed. For others it meant the "divine will", with even more disagreement regarding what *this* commanded. Still others derived Natural Law from the law that existed in a "state of nature." But for some this meant savagery and for others a sort of Garden of Eden. According to the Declaration of Independence "the Laws of Nature" made certain "unalienable" rights "self-evident."

Finally, Jeremy Bentham, toward the end of the Eighteenth Century, was moved to exclaim that Natural Law was "nonsense on stilts." In his *Principles of Morals and Legislation* (1780), he wrote (Ch. 2):

"A great multitude of people are continually talking of the Law of Nature; and then they go on giving you their sentiments about what is right and what is wrong: and these sentiments, you are to understand, are so many chapters and sections of the Law of Nature."

This is not too unfair a description of those who are trying to revive the doctrine of Natural Law even today. They try to deduce its prescriptions from certain moral "axioms" taken from Locke or of their own devising. A typical one goes: "Every man owns himself; therefore _____." It is also clear that some of the rules that the natural-law champions "deduce" are, in fact, disguised or crypto-utilitist rules. Thus John Rawls, an avowed anti-utilitarian, in trying to deduce the principles of justice (in his *A Theory of Justice)*, begins by assuming a society of persons "who in their relations to one another recognize certain rules of conduct as binding;" and "these rules specify a system of cooperation designed to advance the good of those taking part in it (p. 4)." He

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goes on to remark that "social cooperation makes possible a better life for all than any would have if each were to live solely by his own efforts" and so on. But rules designed to "advance the good" and make possible "a better life for all" are precisely utilitist rules. The ideal of justice is an inherent part of rule-utilitism, not a separate or competing concept.

No Firm Foundation

The great difficulty with Natural Law, on the other hand, is not only that there is no agreed-upon code, but no agreement on the principles upon which such a code could be constructed. The greater part of the Natural Law votaries are really intuitionists in their moral philosophy.

I apologize for having given so much space to a seemingly irrelevant discussion of the relative merits of utilitist versus Natural Law standards. But it is not only Nozick who explicitly rejects utilitist tests in favor of Natural Law, but an increasing number of young libertarians who have apparently been influenced by him.

So far practically all I have written on Nozick's book has been negative. Why, then, am I discussing his book at all?

I do this because, while I think that Nozick often fails to base his reasoning on genuine first principles, and while his logic often seems to me unduly technical or irrelevant, he more than makes up for this by many brilliant arguments on special points. I shall cite a few of these.

Nozick is especially good in analyzing the rhetorical nonsense behind many of the leftists' recent objections to capitalism. A fashionable objection today is that workers lose their self-esteem by being frequently ordered about, under the authority of others unselected by them, and by having to work at tasks that they do not regard as "meaningful." Nozick points out that even members of a symphony orchestra are constantly ordered about by their conductor, and not consulted about the overall interpretation of their work, but nevertheless retain a high self-esteem.

More seriously, he points out that fragmentation and specialization of tasks are not problems peculiar to capitalist modes of production, but would go with any industrial society. The reason is that they tend to lead to the lowest costs and the highest efficiency and production. Suppose (which is most probable) that dividing a firm's work force into "meaningful" segments, rotating the workers into different tasks, and so on, could only be accomplished at the cost of less efficiency and production (as judged by market

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criteria)? Would the workers be willing to accept lower pay in order to do this more "meaningful" labor? Or would consumers be willing to pay higher prices for the same goods, or get less of them, in order that this more "meaningful" work could be provided? Who would be willing to pay for such a reform, and how much? Would a socialist government *forbid* "nonmeaningful" work?

Labor Theory Refuted

As a more important example, let us take Nozick's refutation (on pages 253 to 262) of Marx's labor theory of value and his general exploitation theories. Similar refutations have been made before, notably by Boehm-Bawerk, but Nozick's is an especially compact one. Marxist theory, he concedes, "does *not* hold that the value of an object is proportional to the number of simple undifferentiated labor hours that went into its production; rather, the theory holds that the value of an object is proportional to the number of simple undifferentiated *socially necessary* labor hours that went into its production."

But then, it turns out (though Marx himself never got around to seeing or acknowledging this clearly) that the amount of labor that really is "socially necessary" is determined by the utility and value of the particular commodity that is made! As Nozick concludes: "*What* is socially necessary, and how much of it is, will be determined by what happens on the market! There is no longer any labor theory of value; the central notion of socially necessary labor time is itself defined in terms of the processes and exchange ratios of a competitive market! . . . One might be left with the view that Marxian exploitation is the exploitation of people's lack of understanding of economics."

"Distributive Justice"

I come to my final example. This is Nozick's theory of "entitlements." He has argued that "the minimal state is the most extensive state that can be justified," and that "any state more extensive violates people's rights." He then addresses himself to the argument that a more extensive state is justified in order to achieve "distributive justice."

One trouble with this whole conception, he points out, is that it implicitly assumes that goods have *already* been "distributed" by some central source or according to some single principle, and that the duty of the state is to *re*distribute them according to some *other* "patterned" principle. But this overlooks the whole history of how the present "distribution" of goods came about. "Things come into the world already attached to people having entitlements over them. From the point of view of the historical entitlement

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conception of justice in holdings, those who start afresh to complete 'to each according to his _____' treat objects as if they appeared from nowhere, out of nothing."

How did the existing "distribution" of things come about? It came about because some people *made* the things they now hold, or because they were paid their marginal contribution to output in wages, or because they inherited property, or the objects (or money) were given to them by their parents, their spouses, or their friends. So even if the state made some "patterned" redistribution of wealth—"to each according to his needs," or to each equally—that pattern would very quickly be upset by some people continuing to create more than others, or some people giving freely to others, or some people voluntarily paying well for certain services, or to see or hear a particular professional athlete or performer, and so on. As Nozick sums up: "The socialist society would have to forbid capitalist acts between consenting adults."

The system of entitlements is defensible, he argues, "when constituted by the individual aims of individual transactions. No overarching aim is needed, no distributional pattern is required."

He goes on later to contend persuasively that: "Taxation of earnings from labor is on a par with forced labor (p. 169)."

Unfinished Arguments

But in spite of many excellences, Nozick's argument for his minimal state is in the end not quite convincing. A good part of the reason for this is revealed in his own description of his procedure in his Preface:

"Part I justifies the minimal state; Part II contends that no more extensive state can be justified. I proceed by arguing that a diversity of reasons which purport to justify a more extensive state, don't. Against the claim that such a state is justified in order to achieve or produce distributive justice among its citizens, I develop a theory of justice (the entitlement theory) which does not require any more extensive state, and use the apparatus of this theory to dissect and criticize other theories of distributive justice which do envisage a more extensive state. . . . Other reasons that some might think justify a more extensive state are criticized, including equality, envy, workers' control, and Marxian theories of exploitation."

But his book, he goes on, is not "a political tract" but a "philosophical exploration." It does not pretend to be "a finished, complete, and elegant whole," but "a less complete work, containing unfinished presentations, conjectures, open questions and problems, leads, side connections, as well as a main line of argument. There is room for words on subjects other than last words."

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No doubt there is. But it is precisely because Nozick has elected to write a book with a rambling and "unfinished" argument, with so many digressions, that many readers will find it unsatisfying and even occasionally irritating, that they will lose the thread of the main argument, and though finding it often persuasive, will in the end not find it quite conclusive.

I am not saying that it could not have been made so. Nozick does convincingly make his argument against anarchy. Others before him have advocated precisely his minimal state, "limited to the narrow functions of protection against force, theft, fraud, enforcement of contracts, and so on." It is an attractive ideal. But it has never been held by more than a tiny minority. If its appeal is ever to be widened to reach an effective number of thought leaders it must be by a broadly understandable but orderly chain of reasoning, without confusing digressions and without serious missing links, that makes its conclusion seem inescapable.

IDEAS ON LIBERTY

General Rules of Peace and Order

ALL the laws of nature which regulate property as well as all civil laws are general and regard alone some essential circumstances of the case, without taking into consideration the characters, situations, and connections of the person concerned or any particular consequences which may result from the determination of these laws in any particular case which offers. They deprive, without scruple, a beneficent man of all his possessions if acquired by mistake, without a good title, in order to bestow them on a selfish miser who has already heaped up immense stores of superfluous riches. Public utility requires that property should be regulated by general inflexible rules; and though such rules are adopted as best serve the same end of public utility, it is impossible for them to prevent all particular hardships or make beneficial consequences result from every individual case. It is sufficient if the whole plan or scheme be necessary to the support of civil society and if the balance of good, in the main, do thereby preponderate much above that of evil.

DAVID HUME, *An Inquiry Concerning the Principles of Morals*

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Anna Dillenberg

WELFARISM

THE UNITED STATES is moving with ever-increasing speed down the path at the end of which each individual is just one small part of an all-important government. One of the greatest shifts in philosophy in this century has been away from the idea that what a man earned was his own, to spend or save at his own discretion. Now, the individual no longer works for himself, but for the horde of tax collectors and bureaucrats "running" the country. The reason is simple—people no longer pay for their own housing, education, medical care; they "charge it to Uncle Sam."

How delightful—if the government were an inexhaustible fountain of wealth. But this is not the case. What the government spends, it must first take out of the pockets of its beneficiaries, by taxing and/or inflating the money supply. As Frederic Bastiat put it, the public is under the spell of "the great fiction, by means of which everyone hopes to live at the expense of everyone else."

There was a time when it was considered a social disgrace to depend on state funds for a livelihood. Today, almost everyone is collecting social security of one form or another. When these programs were instituted the people were led to believe that the "free" services would be paid for out of taxes on the rich. This is called graduated taxation and is based upon the idea that it's not right for one person to earn more than another, no matter what kind and amount of work each does. However, these "soak-the-rich" schemes have led to the liquidation of the wealthy class, and the cost of "free" services has been spread over all the beneficiaries.

It is strange that these ideas should catch on in the very countries that are distinguished from the rest of the world by their *mass* prosperity. The difference between the developed and undeveloped nations is not the services enjoyed by the wealthy, but in the general standard of living of the mass of people in the

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respective areas. In one, a great variety of goods and services is available to people of all economic strata; in the other, the lives of the masses are marked by a consistent level of deprivation and despairing poverty.

The great message of the Industrial Revolution is that political freedom encourages saving, investment, production and trade as a way to better living. The restraints and entanglements of politics should be avoided in any concerted attack on poverty. Government welfare leads inevitably to a maze of restrictions and regulations to enforce each new law. Every "gift" from government involves controls that stifle production and trade. But the welfare habit is addictive; the more people receive, the more they want.

The main reason for the plausibility of redistributionist ideas is a misconception of the nature of ownership and production and what earning an income means in the framework of a free market. A redistributionist seems to think that goods are "socially produced" and then placed in the common storehouse, to be arbitrarily distributed as incomes. But there is a pattern to the earning of incomes in the free market: the size of the income depends upon the extent to which the individual, in conjunction with other individuals, succeeds in satisfying the wants of his fellow men. Capitalists *must* use their capital to produce for consumers. Legal ownership of capital goods does not automatically guarantee an income from them. Since, in this context, the fulfillment of consumer wishes is the rationale of the production of consumer goods, it is the mass of consumers who must be regarded as the real economic director of capital.

So, even though legal titles to the thousands of factories in any given country may lie in the hands of a minority, this accumulation of capital is not used for their exclusive benefit but to produce a great *variety* of goods and services for the majority of people.

The goods and services we consume have been produced for us by our fellow men, in exchange for what we have produced for them. If we wish to consume more, without producing more, someone else must produce more, without consuming more. There is a third method—by seizing what others have produced and forcing them to do without. This is theft, pure and simple, and it's what is really involved in the redistribution of incomes via state compulsion—progressive taxation to "soak the rich" and "welfare" measures to raise the income of the very poorest. This idea of stealing from one party to give to another involves the massive presumption that any third party (government) can know *so* much as to be able to judge from whom to take, to whom to give, and

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how much. The government would be virtually taking God's place, and arbitrarily deciding right and wrong.

And there is the inconsistency that the very people who help create those "high" incomes by buying what the "rich" people have produced then propose to "correct" the "unequal" distribution of the market by the political process.

A fairly recent proposal for robbing the industrious and thrifty to subsidize the thriftless and lazy is the so-called NIT, the negative income tax. This insures every family a minimum income, whether it is earned or not. In fact, one in this income bracket may just as well quit working and collect his "wages" anyway. If this were passed through the legislatures incentive to fill the least-skilled and lowest-paying jobs would completely disappear. Some 30 million people would become permanent state pensioners, to be maintained at the cost of the solvent taxpayers.

At each end of the economic ladder an increasing number of people would ask, "Why work?" The beneficiaries of this gigantic welfare system would see very little reason to take an unskilled job, with minimum wages and no prestige, when they could sit at home gossiping with their friends over a six-pack and collect welfare checks.

At the same time, the more ambitious and affluent would see little incentive to work harder or achieve if what they earned would be immediately siphoned off for subsidizing the lazy.

One aspect of freedom is the right to make choices—part of which right is the responsibility and privilege of accepting the results, good or bad. "Big Brother" government would lift this burden from our shoulders if it could. It wants to protect us from ourselves. We should all be just another cog in the machine. Is this what we want?

Every offer of government aid that we accept encourages the government to tax us still more, and to impose still more controls. For every state allowance, we give up a piece of our dearly-bought freedom. We give up the power to choose for ourselves how to spend our money. The government decides what we need or should have.

And what of the old-fashioned idea of Christian charity? Once, it was a function of the church to minister to the needs of the genuinely poor and sick. One of the worst by-products of state welfarism has been the paralysis of our impulse toward charity. For not only has the state usurped this function of the church, and seized our means to be charitable, it has stolen our will to be charitable, too.

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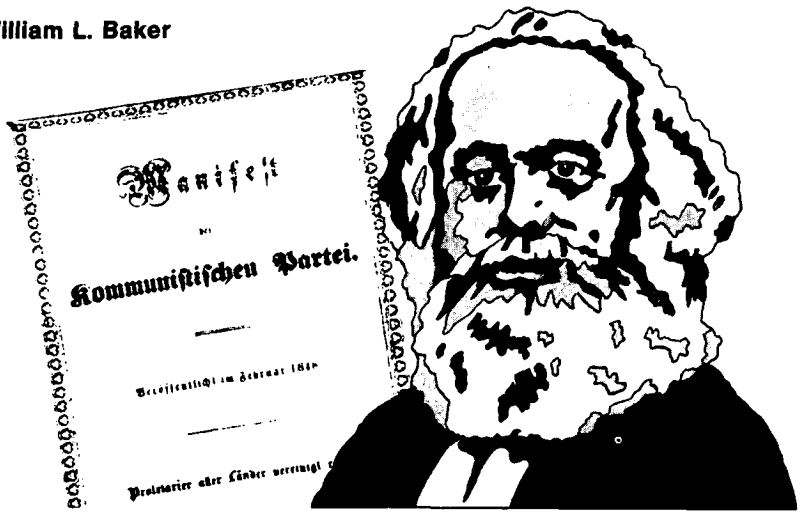
MARX and the MANIFESTO

William L. Baker



It has been more than one hundred and thirty years since *The Communist Manifesto* burst onto the scene during the tumultuous days of unrest and reaction immediately preceding the March Revolution. It passed almost unnoticed except among the more rabid, inmost core of professional revolutionaries. At the time it certainly made little enough of an impression. Dr. Marx's strident pamphlet did not win for its authors (the ever-present Friedrich Engels shared in its creation) overnight recognition as leading lights of the communist movement. All that came later. But as the book aged, it assumed cyclopean dimensions—giant, intimidating, formidable. Its subsequent reputation has been inflated beyond any contributions it may have originally advanced. But—for good or ill—flawed or not, the *Manifesto* is still a potent force upon the world political scene in this age of the so-called "common

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man." Like the legendary dragon's teeth of ancient mythology, its dormant fertility retains the seeds of future life. Warriors sprout wherever the message of *The Communist Manifesto* has penetrated.

But warriors loyal to whom? To what cause? In behalf of which current brand of socialism/communism? Which of all the contending utopias is the "true religion?"[1] Upon this matter *The Communist Manifesto* maintains a lordly and indifferent silence.

In this chaotic muddle of claim and counterclaim battle the "true believers," each asserting his own legitimacy and the apostolic purity of his own descent. Each seeks to promote his own cause and to expose his rivals as the petty bourgeois pretenders that they really are. Socialist turns murderously upon socialist. All heretics must be denounced and liquidated—many are called but few are chosen.

The Communist Manifesto was hastily written on the eve of the 1848 German Civil War when the fatherland stood on the brink of chaos and discord. Into the *Manifesto* Marx poured his soul, his hates—above all his hates—his ambitions, his unbridled mysticism, his vitriolic diatribes against the evil as he understood it. It was a work born of blood, desire, and unremitting (or so it must have often appeared) toil. Like all books it was the product of endless, patient, countless hours. One must imagine Marx as he really was: an energetic glutton for almost unbroken study; the relentless devouring of book after book until he had found just the right word, phrase, or idea. His was a Spartan regimen of stoic simplicity, this angry patriarch of economic Prussianism.

Setting and Background

On the other hand, there was more to *The Communist Manifesto* than mere "booklearning" and the printed word. The *Manifesto* could just as easily be portrayed as the child of fierce, surreptitious debates in crumbling, rickety garrets, nocturnal discussions in seedy tenements, and of jocular (and, just as often, not-so-jocular) conversations within the myriad little Bohemian cafes that dotted nineteenth century Paris, Brussels, and Cologne.

In what follows, this paper shall critique the economic underpin-

[1]It is an error to assume that "pure" socialism/communism can or ever has existed independent of doctrinal disagreements, policy priorities, and the multitude of petty jealousies and squabbles among those vying for supreme power within the Party itself and the political structure of the specific socialist commonwealth. It is even more grievous to suggest that the dawn of socialism will usher in an era of love, brotherhood, and equality for all men everywhere. Each brand of socialism possesses its own unique flavor. There is, in the world today, a multiplicity of socialisms with a multiplicity of conflicting goals.

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nings (both stated and implied) of *The Communist Manifesto.* In each section I shall first summarize Marx's evaluation of a given problem followed by my own analysis of the Marxist paradigm. Each section shall deal with a specific topic treated in the *Manifesto.* In Section I, I shall attempt to unravel the tangled threads of the so-called "commercial crises." By contrasting Marx's "static" model to the dynamic structure of "real life" capitalism based upon the expectations of profit-motivated entrepreneurs, this paper shall attempt to clear up some of the ambiguities that have hitherto existed concerning the functioning of the price structure in periods of serious business decline. (Some overlapping with Section III is necessary here.) This shall involve a rather prolonged delineation of cause-and-effect: something completely ignored by Dr. Marx in his sketchy treatment of "bourgeois" economics. This should be especially relevant in today's harrowing economic atmosphere when the old bugaboos of unemployment, "underconsumption," and "overproduction" are again rearing their unwelcome heads.

Section II examines the notions of class and class struggle. Does man really live at perpetual war with his neighbors (especially those of another "class")? Do "classes" really exist? In the analysis of the class struggle much emphasis will be placed upon the dichotomy between the eternal struggle within the animal world and the world of civilized society—characterized by the division of labor. Marxist polylogism—the theory of different "class logics"—is also briefly considered in Section II.

Section III takes a look at the theory of value in general and the labor theory of value (which Marx utilized) in particular. It is the contention of this section that the market, capitalism, economic depressions—indeed, any of the varied activities of human action—cannot be properly understood without a workable theory of value. Marx, like the classical economists of his day, fell into disrepute over the defective theory of value which he propounded. Section III attempts to establish that all value is subjective—and therefore out of the province of the scientific economist. With a personal, subjective theory of value it becomes pure pedantry to talk about "overproduction" (in the classical, Marxist sense), "surplus value," "capitalistic expropriation," and other such examples of emotional claptrap. (In its treatment of commercial crises, Section I also attempts to lay the labor theory to rest by contending that labor is not homogenous as Marx tacitly assumed. By taking issue with the homogeneity of labor and wages, an

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important prop is kicked out from underneath the already shaky platform of Marxist economic theory.)

Section IV is two-pronged. The first problem deals with the efficient allocation of labor in the socialist commonwealth. Deprived of the capitalistic tools of monetary calculation, how can the socialistic board of production provide meaningful production quotas? Indeed, how can it possibly even know *what* to produce? Is it possible, for example, lacking a labor market in the old capitalistic sense, for the socialist commonwealth to know whether or not a specific labor project is creating or consuming capital? Secondly, Section IV attempts to ascertain the fate of the individual laborer within the socialist framework. What is the status of the laborer in the Worker's Paradise?

A brief look into Marx's *Communist Manifesto* is now in order.

I. *The Commercial Crises*

According to Marx, one distinguishing feature of capitalism was the periodic recurrence of commercial crises. Under the direction of the greedy bourgeoisie, factories inundated society with the "epidemic of overproduction." In this grievous state of affairs:

> Society suddenly finds itself put back into a state of momentary barbarism; it appears as if a famine, a universal war of devastation, had cut off the supply of every means of subsistence; industry and commerce seem to be destroyed; and why? because there is too much civilization, too much means of subsistence, too much industry, too much commerce.[2]

Thus, the great paradox: society drowns in a sea of wealth, poverty amidst plenty. This poverty and degradation, this "famine" result not in spite of man's opulence and wealth, but precisely because of it. The wealthier man becomes, the worse off he really is. Wealth can bring nothing but grinding poverty. Man is suddenly faced with "too much wealth," "too much of the means of subsistence." This could only happen, Marx assured his readers, because bourgeois society was "too narrow" to comprise the wealth created for them.

Capitalism, then, dies of gluttony. More correctly, capitalistic society dies of hunger induced by indigestion. These "paradoxes" of capitalism were insolvable to Marx. He shrugged them off by saying that capitalism contained within itself the seeds of its own destruction, [3] its

[2]Karl Marx and Friedrich Engels, "Manifesto of the Communist Party," in *Collected Works*, Vol. VI: Marx and Engels: 1845-48 (New York: International Publishers, 1976), p. 490.

[3]*Ibid.*, p. 496.

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own "negation." Production, therefore, was nothing other than a juggernaut relentlessly crushing everything in its path. Trade and prosperity were nothing else but the dormant seeds of a future crash. The only refuge from poverty (the effects of the crash) was to abstain from production and trade. In a word, the only refuge from poverty is poverty itself.

Unanswered Questions in the Marxian Analysis

Marx did not carry his own arguments to their ultimate logical conclusions. His analysis stopped precisely where the intriguing questions pile up and beg to be answered. For example, one might ask, "Yes, but what makes all this overproduction *possible*? What prevents the capitalists, motivated by greed as they are, from learning by their past mistakes? At what point does 'production' become 'overproduction'? Overproduction by whom and in relation to what? How is this manifested and discovered in the marketplace? At what point do the effects of overproduction make themselves known to society? What accounts for this *sudden* 'cluster of errors,' all turning up at the same time?" *The Communist Manifesto* greets all these inquiries with stony silence.

The "overproduction" theory is a most naive view, at best, of the capitalistic mode of production.[4] The contradictory analysis which Marx painted of capitalism can only result in blatant, unexplainable absurdities utterly divorced from the real world of production. It is difficult even to conceive of such a state of affairs as "too much" production, "too much" subsistence, "too much" civilization. The fundamental condition of life is scarcity. The means of production and the ends they can attain are always necessarily limited. They cannot satisfy desires in unlimited abundance. Each product and means of production (including labor) is strictly circumscribed in the tasks and services which they can perform. Unlimited production is impossible.

Scarcity is reflected by desires and wants. However, scarcity is relative. Relative to what? In the market society the relative scarcity of different products is mirrored by price. Prices exist because scarcity exists. When a good is no longer scarce (i.e.,

[4]This paper is not concerned with individual value structures. Ultimate value judgments are not the province of the economist. As such, this paper does not take issue with *what* the market produces (or what the consumer demands) but with *how* available supplies are allocated once they "hit" the market. In other words, given specific production goals and capacities, is it *possible* to trigger a commercial crisis by producing more than the populace can consume? (This is not to say no "oughts" exist, simply that they have no place in this specific work.)

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if it is available in unlimited abundance or if demand vanishes) it will not be able to command a price in the marketplace. In other words, its "price" will fall to zero.

"Overproduction"

So, then, what makes "overproduction" possible? The Marxist theory evokes a mental image of a mountain of goods piling higher and higher, being effortlessly kicked out by mindless automatons with a total disregard for reality. [5] This analysis reveals a faulty understanding of the entrepreneur and of his role in the process of production. Like anyone else, the entrepreneur is a human being perhaps no smarter and no duller than anyone else. Like his fellow beings all his action is predicated upon *expectations*. What are the "expectations" of the entrepreneur? To make a profit. He will be able to continue in his capacity of production only as long as he is able to make a profit.

The Marxist theory begs the question: why would industrialists be so willing or even able to produce when no one either can or will buy their products? How and why, with bulging inventories of unpurchased goods, would assembly belts continue to roll? Continued production under such circumstances would be suicidal and impossible. But capitalists are neither suicidal, overly charitable, nor infinitely rich. The Marxist sees the entrepreneur (or capitalist), however, as a total nitwit, completely unable to adapt to changing circumstances. And whatever else might be said of the industrialist magnate, he is not lacking in versatility. How could such a condition (overproduction) exist outside the realm of fairy tales and propaganda pamphlets? The law of scarcity has never been repealed. The tissue of fallacies must be faced: the theory of overproduction is long overdue for a well-deserved rest.

The Element of Timing

Marx's theory of overproduction overlooked other vital questions of practical significance: how does one account for the critical element of timing? Why, for example, do the forces of overproduction and unemployment dovetail and emerge all at once in The Crash? Why the sudden cluster of errors?

Now there is nothing more certain than that all men are fallible and often err. And, it is only to be

[5] Marx may have anticipated this question in the *Manifesto* when he said: "The conditions of bourgeois society are too narrow to comprise the wealth created by them." But if this is true, why create this wealth? To what "conditions" is Marx referring? No clue. Wealth created by whom? For whom? To what end? These represent lamentable gaps in the Marxist theory of "overproduction" and depression. Unless this pertinent information is revealed, there can be no intelligent support for his questionable paradigm.

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expected that entrepreneurs and capitalists, like other mortals, will certainly make their quota of mistakes. They, *too*, will occasionally "miss the mark." But is it not a bit ironic that all entrepreneurs (as evidenced by the "crises") just happen to make the same mistake (overproduction) at the same time? What would account for this singular state of affairs? This is a serious omission on the part of Marx. It is as if all were well with the world one day and then is jarred awake the next day to a surprisingly different state of affairs (the crises). One can be pardoned for not taking Marx too seriously in this matter.

There are other problems with the Marxist analysis of "commercial crises." If at some point there has been overproduction, there must be some culprits hiding in the bushes somewhere. These unsavory characters would certainly be worth our bitterest opprobrium and vituperation. Just who is it, exactly, that performs such anti-social deeds? Who is the guilty party? According to Marx, it is the "workers," of course, who produce. They are the sole contributors to the productive process. Since capitalists and bourgeois entrepreneurs are only idle parasites devoid of any economic (productive) significance, it stands to reason that it is the "workers" who have been "overproducing." But *which* workers? Medical technicians? Broadway actors? Lathe operators? Perhaps chicken pluckers? Plumbers? Maybe garbage collectors? What kinds of goods and services? Just "things in general"? If so, what kinds of things? Perhaps stethoscopes or trigger guards or saddles? Toilet tissue or fingernail clippers? Perhaps book binderies or economic treatises and revolutionary pamphlets? Seminar papers? "Overproduction" of what, by whom, in relation to what?

Homogenous Factors

Marx, like many of his disciples, labored under the delusion that labor, production, and wages were homogenous. All "labor" was alike, all "production" was alike, all wages were the same. This was an unforgivable blunder. Marx was completely wrapped up in his acidic, piecemeal approach to the study of capitalism. He did not have time for such things as detached observation. *The Communist Manifesto* is not a dispassionate analysis of labor and wages. With his heated invective and imprecation it is not surprising that he so often missed the mark. Because he so slavishly devoted himself to the "exploitation" theory of labor, he was completely helpless when it came to the task of dissecting and analyzing processes and categories.

The truth is that all workers are

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not alike; they are not "equal."[6] If labor is "exploited" (how else are the capitalists enabled to accumulate bulging warehouses of unsalable inventories?), precisely what *kind* of labor? A Robert Redford or a Muhammad Ali? An Elvis Presley?[7] Is the Iron Law of Wages, so gloomily trumpeted by David Ricardo and echoed by Karl Marx, *equally* grinding upon each and all? How does this fit in with the Marxist theory of overproduction and the Crises? Silence.

The too-much-means-of-subsistence approach has produced a crown of thorns for the more consistent advocates of this doctrine. The remedy which has always enticed and suggested itself to post-Marxist and neo-Marxist economists and ministers of state is to encourage the current political regime and the unions to smash the instruments of production, burn the "surplus" goods, and "plow under" unharvested crops. All this is for the good of the Commonwealth.

A Saturation Point

Perhaps the most fatal fallacy of all implied in the overproduction argument, however, is that only a certain amount of production is desirable, that society can assimilate only a very limited amount of goods. Beyond that point production becomes dangerous and anti-social, resulting in grave ills. What next? Must there be firing squads appointed to liquidate the most vigorous and talented of workers? Or maybe it would be well to award some medal or cash award to those workers who best succeed in stretching five minute coffee breaks to half an hour, or to those who sabotage factory machinery?

The Marxists (and their intellectual cousins) are not prepared to surrender. Is it not true that many companies during the Great Depression of the 1930s were caught with large inventories on their hands? And did not many of these products sit unmoved for many years? Indeed, is it not true that some of these products were never able to be sold? Is this not a vindication of Marx and his theory?

Now, some things must be conceded. The devil, so to speak, must be given his due. It is beyond a doubt that many warehouses bulged with

[6]Cookie cutters are not in the same league as surgery assistants. This also involves different qualities of work within the same occupation. Marx greatly erred by asserting in the *Manifesto* (p. 492), ". . . machinery obliterates all distinctions of labor, and nearly everywhere reduces wages to the same low level." Even if all "labor" were industrial labor, this would still be largely untrue.

[7]*The Communist Manifesto* was intended as a timeless work of *doctrine*. In exploding the tenets of dogmatism it is not necessary to limit oneself to an *historical* analysis of then-current personages and ideas. What counts is the ultimate truth or falsity of the ideology under consideration.

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unmovable goods during the gloomy 1930s. But it is not for the reasons implied in the overproduction argument. The point which most advocates of the "overproduction" theory of economic woes ignore is that almost any product can be sold at *some* price. In a capitalistic economy supply will always equal demand because *prices* will always be plumb with demand and supply. If there is an "inventory" or "overproduction" crisis, it can only mean that prices are too high.

Enforced Scarcity

This problem prevailed throughout the 1930s because the federal government in Washington imposed rigid, unrealistic minimum price controls upon the economy. This "trapped" many products in warehouses where they eventually rusted, rotted, or became obsolete. In other words, people were not allowed to consume because of minimum price controls. The result was enforced scarcity (the implied Marxist ideal) amid consumable inventories (the "too much" means of subsistence noted by Marx). But why? The market was "overstocked" and "underconsumed" precisely because the market was not allowed to function in relation to the true state of supply and demand. So, sure, conditions might arise in which consumers "underconsume"; but, again, not for the reasons implied and stated by the Marxists and neo-Marxists.

The industrialist has every interest in making sure that the "worker" can "buy the product." When the market, regulated and harassed by bureaucratic nonsense, fails to "deliver the goods," it isn't the fault of those engaged in production. ("That's free enterprise for you" is the smug reply to the paralysis which follows each new hamstringing of the market. "The days of capitalism are numbered," intone the regulators as they fire another broadside at the wobbling edifice.)

It was only when the wage and price administrators refused to allow downward flexibility, thus crippling the market mechanism, that a full-blown depression was ushered in. When prices are forcibly thrown into disjunction, chaos results. When prices are arbitrarily frozen at a disequilibrium, "underconsumption" (thus giving the appearance of "overproduction") is inescapable. This alone could account for the aberration of the Great Depression. A suddenly imposed minimum price control which catches everybody off guard would have the effect of declining business activity and "unwanted" inventories. This alone could account for the "cluster of errors" which crop up all at once. Economic panics and commercial crises are not the conse-

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quence of capitalism as *The Communist Manifesto* avers, but the all-too-predictable sequel of Statism.[8]

II. *Class and Class Struggle*

As far as Marx was concerned, all mankind is split into two separate and distinct classes. These two classes are locked in an eternal contest for supremacy and, ultimately, existence.[9] In fact, all the history of civilization and the society of man could be summed up with the idea of class conflict. Marx himself did not formulate this idea of mutual extermination. It had been around for a long time cloaked in many different guises. In this particular doctrine he seems to have been influenced by his old friends, the French socialists.

There was no doubt in Marx's mind that hostility between the classes was both inevitable and praiseworthy. He saw no reason why there should be harmony instead of discord. As members of separate and distinct social entities there could be no question of collaboration between the two. There could not be any question of a "commonweal." What benefited one class *ipso facto* vitiated the well-being of the other. Society, viewed in this manner, could be nothing else but a brutal civil war, a face-off between belligerents.

What Dr. Marx and all his friends contended was true—if one assumes that he was describing the animal kingdom where the "law of the jungle" literally prevails and from which there is no escape. The great error of Marx was to assume that human society was merely a pitched battle but one step removed from the world of animal strife. In the world of animals, specimen is arrayed against specimen, competing in a grim struggle for life's meager necessities. These requisites for continued life are severely limited. Victory in snatching substance from a competitor's mouth spells the difference between continued existence or death by slow starvation and attrition.

When two dogs snarl over an irreplaceable bone, one dog wins and the other loses. One dog receives an extended lease on life, a temporary reprieve from morbidity. The other is that much closer to death's door. With diminishing vitality he must once again take up his quest for a paltry meal. Even the winning dog must retire to lick his wounds and festering sores incurred in battle. In

[8]For a relevant discussion of the regulated market during the late 1920s and early 1930s, see Murray Rothbard's excellent *America's Great Depression* (Kansas City: Sheed and Ward, Inc., 1963). This book effectively shatters any illusions about the *laissez-faire* character of the decade prior to 1932.

[9]Marx and Engels, note especially pp. 484 and 485.

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this world of the animals, ferocity and belligerence are everything. One dies that another might live to battle again.

With man it is different. Under the division of labor—which Marx and the cafe intellectuals detested—each contributes to the process of production (not the snatch-and-grab of the animal world) whereby the human race is enabled to survive. In this man differs from the lower kingdoms of life.

The Iron Law of Wages

In the construction of his model Utopia, Marx was misled by David Ricardo's specious Iron Law of Wages which carelessly decreed perpetual hunger and privation for the laborer.[10] Ultimately, he would be reduced to such a state of destitution that bare survival would be all he could ever expect for himself and his unfortunate dependents. Armed with this dismal weapon Marx strode forth to do battle with capitalism.

They met on uneven ground. With almost mechanical thoroughness the "sycophants and apologists of world capitalism" mutilated his conscripted ideology. (Years later, tired and reeling under the hammer blows of the unimpressed economists, Marx would try a new tactic: he stifled all criticism by labeling Marxism as "scientific communism." Opposition vanished.) At any rate, the Iron Law was later discarded as excess baggage. The history of the Industrial Revolution has successfully refuted that saturnine prognostication; even the Marxist theoreticians have retired from its defense.

Marxism asserts that each man's thinking is determined by his class affiliation. Each individual is, in effect, a prisoner of his class logic, "the will of your class."[11] From this there is no escape. It is the task of communism to unmask the "sycophants" of capital. It is enough to lay bare the background of one's intellectual opposition. This will suffice to reveal his class motives. A "bourgeois philosophy" must be rejected simply because a "bourgeois" was its creator. Professor von Mises makes this point about various theories of polylogism:[12]

[10] *Ibid.*, p. 495. "The modern laborer, on the contrary, instead of rising with the progress of industry, sinks deeper and deeper below the conditions of his own class. He becomes a pauper, and pauperism develops more rapidly than population and wealth." See also p. 491: "Hence, the cost of production of a workman is restricted, almost entirely, to the means of subsistence for his maintenance and for the propagation of his race."

[11] *Ibid.*, p. 501

[12] For an excellent exposition of the doctrine of polylogism (many logics), see Ludwig von Mises' *Human Action: A Treatise on Economics* (Chicago: Henry Regnery Company, 1949, pp. 75-84).

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They never ventured to demonstrate precisely in what the logic of the proletarians differs from the logic of the bourgeois, or in what the logic of the Aryans differs from the logic of the non-Aryans, or the logic of the Germans from the logic of the French or the British. In the eyes of the Marxians the Ricardian theory of comparative cost is spurious because Ricardo was a bourgeois. The German racists condemn the same theory because Ricardo was a Jew, and the German nationalists because he was an Englishman. Some German professors advanced all these three arguments together against the validity of Ricardo's teachings. However, it is not enough to reject theory wholesale by unmasking the background of its author.[13]

Marx was impotent in the face of criticism. He was fully aware of his incompetence in refuting the economists' objections to his work. His doctrine of different class logics was a last-ditch attempt to remove the lofty theories of "scientific socialism" from the paltry scrutiny of pedants and "bourgeois" academicians. Marxism did not fare well in the bright glare of intellectual discussion. Better to clothe it in the mysticism of Hegelianism and the "inner voice."

After having drawn and quartered mankind, after having arbitrarily divided it into two armed camps, Marx decreed that absolute conformity within the class structure was inevitable. To prove this, he cited "bourgeois" thinking over against "proletarian" thought. This would assure that each robot act to the "best interest" of his own class. But what is the "best interest" of one's own class and how can it be known? (Even robots must have their instructions.) Did, for example, the capitalist Engels, son of a wealthy industrialist, and the bourgeois Marx, son of a well-to-do lawyer and husband to a scion of the Prussian nobility and landed gentry, act in the "best interests" of their class by authoring *The Communist Manifesto* and calling upon the workers of the world to unite? Even Marx had to admit that, in fact, the "organization of the proletarians"[14] are upset by none other than individual competing proletarians. Obviously there are a few such tempestuous individuals within the bourgeois class structure as well. A chink in the armor perhaps?

Marx and his cronies were sure that class consciousness was the only motivation for human action. It was the sole criteria by which individual performance could be interpreted.[15] In the overzealous con-

[13] *Ibid.*, p. 75.

[14] Marx and Engels, p. 493. See also p. 496 where Marx asserts that, "Wage labour rests exclusively on *competition between the laborers.*" (emphasis mine).

[15] Years later Engels made a rather feeble attempt to deny that Marx places exclusive faith in class determinism. Nevertheless, true or not, that is largely the tone of his published works and recorded speeches. For a typical Marxist statement regarding class determinism, see Marx and Engels, p. 501.

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struction of this dubious paradigm Marx completely overlooked the role of nationalism ("The workingman has no country."), racism, religion, age, sex, and a host of other variables which help in determining man's attitude and outlook. There is, of course, nothing logically impermissible about dividing society up into classes—whether two or two thousand—no matter how arbitrary that division may be. It would be wrong however, to assert that such is the *only* way of looking at or dealing with civilization.

Nevertheless, not all concepts and propositions regarding classes are equally valid. One may preach (as Marx did) about "class rule" until the cows come home. But mere parroting does not make rhetoric any more of a reality. "Classes" do not govern or hold office; "classes" do not accept bribes; "classes" do not embark upon political campaigns; "classes" do not canvass political districts and solicit votes; individuals do. To equate the actions and identity of one individual with the actions and identity of a "class" is a deplorable and contemptible boner.

III. *Value*

Marx and others of his day were misled by the labor theory of value propounded by the classical economists. According to this assumption, as Marx correctly noted in *The Communist Manifesto,* the price of a commodity (including labor) is equal to the cost of production.[16] An object is only "worth" what "labor" goes into it. Today it is very easy to explode this myth. The truth is, however, that the labor theory of value is still widely held in one form or another by many economists who otherwise lay no claim to the tenets of socialism or to classical economic analysis. These mistaken doctrines have, in their turns, given birth to a host of ills—not the least of which has been a marked hostility to capitalism and its productive structure. This enmity poisons relations between entire nations and large segments of populations within those separate states.

Karl Marx was totally correct in his interpretation of the labor theory of value. For years the apologists of capitalism and free trade pressed this doctrine into the employ of their own peculiar philosophy. It was a well-tooled weapon in their arsenal. Nobody was more surprised than they when the so-

[16] *Ibid.*, p. 491. "But the price of a commodity, and therefore also of labour, is equal to its cost of production." Labor wages were supposed to decline as the "repulsiveness of the work increases" (p. 491). Further, the "labor theory" is implied in referring to the lower classes as *the* "working class" (emphasis mine). Only labor could "create capital." (p. 498)

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cialists stormed the barricades and wheeled it into an about-face. Adam Smith and his circle of admirers erred when they assumed that *laissez faire* capitalism could be justified by an appeal to this spurious doctrine. As elaborated by Marx, the labor theory was simply a fallacious dogma carried through to its ultimate logical conclusion. The third generation classical economists were shocked and dismayed by the ease with which their own ordnance could be turned upon themselves. Thus, crippled by a crotchety principle for many years, no adequate defense of capitalism could be formulated. As long as "labor" was employed as the cornerstone of value, it proved to be an impossible task.

All value is subjective. There can be no question of any so-called "intrinsic" or "surplus" value. No value can exist independent of the mental act of valuation. There can be no "value" without a "valuer." It is useless and vain to postulate "worth" independent of what conscious individuals are willing to exchange for it. The quest for absolute value is an endless labyrinth. When the Marxian socialists commandeered the labor theory of value and appropriated it for their own cause, they felt as if a great *coup d'etat* had been engineered. But the spoils of war proved to be a bomb with a delayed fuse. In the end it served the socialists no better than it had the economists.

The labor theory of value is an "objective" theory of value. It presupposes Absolute Value, independent of individuals. If it can be established that "value" is a *necessary* consequence of "labor," then a plausible case might be advanced for supporting the labor theory. In fact, it cannot. One might "labor" for days on end digging potholes in Farmer Brown's turnip patch. His only reward will be a cartridge of buckshot from the wrong end of a shotgun. The inept artist might "labor" many months on a "Mona Lisa" that is "worth" less than the canvas upon which it is painted. On the other hand, the owner of previously unusable property might awaken to find his deed has appreciated in value because of the proposed construction of a superhighway nearby. No labor has been expended.

There can be no doubt as to the untenability of the labor theory of value. If the price of commodity A (including the commodity *labor)* is equal to the cost of production B, what, one may ask, determines the cost of production B? It is no answer to reply: the cost of production B^1. There is no infinite regression. Sooner or later, one comes upon the original goods and factors of production. What determined *their* value? At this point it will be easy to simply

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shrug the shoulders and answer: "supply and demand." But what accounts for supply and demand? This is precisely where the classical economists (including Marx) remained silent.

All value springs ultimately from the subjective valuations of individuals as they make their choices in the daily plebiscite of the marketplace. Without an inner process of valuation the old economic standbys of "supply and demand" could not exist. What else is the market price but supply and demand? What is supply and demand but the individual evaluations of buyers and potential buyers?

There is no appeal, no recourse from the dictates of the customer. In the realm of economics it is pointless to declaim the "real value" of one's pet project, investment, or labor. There is no "real value" in the world of production and trade but what people are willing to obtain by exchange. It is vain to stubbornly argue the "intrinsic" or "real value" of a product which can be "moved" for only a fraction of its overhead.

Marx went to great pains to demonstrate that the workers were dupes enslaved by heartless felons who were forever depriving them of their "surplus value." For the insolence of these capricious capitalists, the dialectical forces of materialism had decreed an apocalyptic day of vengeance, judgment, and retaliation. Then the benighted masses could be set free. The labor theory was a fountainhead of Marx's analysis. He wielded it well. With it he slew many a dragon; he formulated with it the concept of exploitation, of class conflict, and of labor and wages. With its collapse the Marxist structure must collapse as well.

IV. *Labor and the Socialist Commonwealth*

It is no secret that Marx wanted to abolish capitalism. He decried the "exploitation" of workers by owners and viewed the labor market as little better than a slave auction. As far as Marx was concerned, laborers were the unwitting victims of the callous, hardhearted businessman. He felt it was absolutely deplorable that the laborers "sell themselves piecemeal, are a commodity, like every other article of commerce, and are consequently exposed to all the vicissitudes of competition, to all the fluctuations of the market."[17] The

[17]Of course everybody is either directly or indirectly affected by the "vicissitudes" of the marketplace—not just those engaged in daily trade and competition. The crucial question to ask here is: Would all that change under socialism/communism? Is reality any less stern under political regulation of economic necessities and desires than under market production, allocation and distribution?

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only alternative, Marx felt, was to abolish the market society.

It is positively true that "laborers" must "sell themselves" in order to survive. Certainly they are subject to the "vicissitudes of competition" —as is everyone engaged in earning his "daily bread." But how would all this change under a communist economy? Specifically, having abolished the structure of the market (including its interlocking relationships between prices, production, and the supply of goods and services), what part would labor play in the socialist commonwealth?

Production Comes First

Obviously, the first task of the socialist commonwealth is to provide for production. Labor will be no less a necessity than it had been under capitalism. Once the market and the existing structure of production and distribution have been abolished, what then? How will the administration allot its resources? Upon what will they depend as a reliable guide for future production? Marx himself was silent on these matters. That he had an inkling of the can of worms he opened will be demonstrated later. (Marx was an advocate of communism—not state capitalism. He did not want merely to exchange one tyranny for another. Therefore, there could be no question of a market structure of prices to guide the decisions of the Socialist Planning Board. But as to how those decisions should be arrived at Marx never said.)

Under a "pure communism" there can be no money—and therefore no meaningful structure of prices to direct and allocate the flow of goods and services.[18] Nowhere has man succeeded in abolishing capitalism without immediate chaos. All such ventures are doomed to failure and have always resulted in a hasty retreat to the safer confines of the "mixed economy"—where the administration may enjoy the blessings of capitalism with the bureaucratic trappings of State power and control.

Again, Lenin and his authoritarian successors were fully aware that they had failed to create the communist utopia. For this they had (and have) many excuses and justifications. Someday (they seem to be saying) when greed and venal corruption no longer rule man's heart,

[18]Lenin, the erstwhile disciple of Marx, learned this bitter lesson for himself in the years following the October Revolution. Lenin's response to the failure of Socialism was a thinly veiled resort to a quasi-market (New Economic Program) which allowed for incentive and the making of rational economic decisions. Further, the basic premises of the NEP were not scrapped by the Soviets after Lenin's death. The Soviet economy merely assumed a more subtle form of State Capitalism—a system which most assuredly relies upon a market structure of prices; in short, the Soviet Union is a "mixed economy," so to speak, not a communist society in the purest sense.

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when all these great evils and inequities have disappeared, *then* the Blessed Day will be ushered in and the pure in heart shall inherit their collectivist paradise. Until then, communist leaders and citizens are forced to play the capitalists' game of money exchange and market prices. The failure is not the fault of world-wide communism, but, rather of the venal capitalists who have sabotaged the global effort of the workers. The point is, however, that for one reason or another, communism has never "worked." Chaos has always followed in its wake, and, barring an elemental change in man's basic nature, it probably always will.

Efficient Use of Resources

The communist society must labor and exploit its resources as efficiently as possible. Not only must the Planning Board of Socialist Production determine how and what will be produced when and where, but it must also make vital decisions regarding the procurement of laborers for the projects which it deems most necessary. The utilization, channeling, and allotment of labor goes hand-in-hand with the procurement thereof. How will this be done?

Marx had some notion of the problems involved in the dismemberment of the market and its attendant structure of prices which have hitherto directed and guided entrepreneurs in production decisions. Specifically, what is the nature of labor under a socialist commonwealth? Marx provided some important clues: "Equal liability of all to labor. Establishment of industrial armies, especially for agriculture. Combination of agriculture with manufacturing industries. Gradual abolition between town and country by a more equable distribution of the population over the country."[19]

In short, without a price-allocation system inherent in the market economy, the only viable alternative is an order of "liability" to labor where conscripts are massed into "industrial armies."[20] Laborers will no longer be able to freely select the type and place of employment—the *levée en masse* will take its place. Labor *laws* replace market prices. Serfdom replaces free choice and the "invisible hand."

Of course, the "industrial army," as Marx correctly noted, would come under the direct control of its totalitarian leaders. Without the flexibility of the pricing system, this

[19]This brings to mind Hitler's National Labor Front under the anti-capitalistic Nazis. Old film clips show row upon row, thousands upon thousands of laborers, young and old, standing at "Present Arms" with shovels and picks—the great "industrial army" of an authoritarian regime.

[20]*Marx and Engels*, p. 505.

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army will find itself "relocated" from time to time to ensure a "more equable distribution of the population over the country." Their country cannot have its cake and eat it too. Either it must submit to the "vicissitudes" of the market or succumb to the absolutism of its socialist dictatorship. The question is not: will there or won't there be "planning"? The only legitimate question to be asked at this point is: "who shall do the planning?"

Presumably (optimistically) the plans of the socialist commonwealth will be made for and in behalf of The Public. Marx spoke quite a lot of "the public." Such cliches never solve anything. They merely promote a scramble for all the myriads of special interest groups to see who gets to be "the public." The great problem of the socialist commonwealth is "Le public, c'est moi."

Conclusion

What might one safely conclude about Karl Marx and his curious tract? What kind of person would it take to write the *Manifesto?* Marx must certainly have imagined himself as the noble St. George sent to right wrongs and rescue the proletariat in distress. He, Karl Marx, did not tilt with windmills; he preferred to slay dragons. But how real were those dragons which he sallied forth to dismember? How much shadow and how much substance? What was rhetoric and what reality? Which of the Marxist tenets have remained unexploded by the "apologists and sycophants" which Marx so despised?

Karl Marx was not quite the heroic figure about which he surely fantasized. Like another crusader of a distant age, he too was ensnared by his own delusions, the victim of his own fallacies. And, like the ludicrous knight of La Mancha, Marx's own literary page was not gifted with any better perception. Marx and Engels committed their blunders together. Their incessant disparagement of the market society and the dynamic Age of Liberalism has taken its toll. The Marxist fetish for capitalistic windmills rages unabated.

Every prophet must have a Babylon. The spark kindled in Berlin grew throughout his life and raged into a conflagration. With all the holy zeal of the True Believer and the self-righteous authority of an Old Testament patriarch, the sage of Trier endlessly denounced the "oppressive" bourgeois and proclaimed the inevitability of socialism. This jihad (as all jihads are) was holy, just, and irrevocable. The vast multitude would rise up in defiance of their chains and shrug off the

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parasitic edifice of landlords, employers, and usurers. This day of liberation would be the death-knell of capitalism and of the expropriation of the many by the few.

An Appeal to Arms

Marx was the eternal Prussian, boiling and seething with Teutonic wrath. He had, so to speak, traveled his own road to Damascus, revealed to man the dictates of the inner voice and communed with the Burning Bush. The fervent Dr. Marx was still young when he returned from Mt. Sinai with the burning tablets of the *Manifesto* still smoldering in his affectionate embrace. This dictum was to be the law and schoolmaster which would guide man to the Promised Land, eradicating for all time to come the despicable golden calf of capitalism and "unconscionable Free Trade." The days of Moloch were numbered.[21]

[21]The imagery is intended; for the gods of an inevitable Armageddon and the Apocalyptic Day of Vengeance do most assuredly lurk between the lines of *The Communist Manifesto*. Marx is merely the privileged servant, a prophet who just happens to be marked out by the blind eye of Destiny. Marx is better informed than his less enlightened fellows, the voice of thunder and lightning sent to mop up the stubborn pockets of bourgeois resistance. Oppression is the theme, retaliation its sacred assurance.

The Communist Manifesto is not a sophisticated economic analysis. It is propaganda and must be read as such. The rantings, the genuflections at the altar of "the Public," the "workers," and the "dictatorship of the Proletariat" are served up without grace so to speak. To be sure, *The Communist Manifesto* reflected many of the fallacies of the day. It was a looking glass into the mentality of French Socialism, classical economics, German philosophy, and a moral tradition which stretches back at least to the age of Socrates. The image which stares back at us is the bristling insolence of the armed thug.

The Communist Manifesto is an appeal to arms. It calls for blood and death. Hand in hand the twin concepts of fear and faith etch themselves upon the mind of the True Believer. It is not an appeal to reason. Its final argument is the smoking barrel of a loaded gun.

A Bibliography of primary and secondary sources drawn upon in preparing this paper is available upon request, The Foundation for Economic Education, Irvington-on-Hudson, N.Y. 10533.

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Kenneth L. Gentry, Jr.

The Problems with Public Welfare

AMERICANS have long been known to be a charitable people. Unfortunately, government intervention could be changing that. The government has entered and gained monopolistic ascendancy in this field as in so many others. Being charitable makes it a bit difficult for us to speak out against public welfarism, lest we appear to be unconcerned for the needs of the poor. However, there are numerous compelling reasons why we can legitimately decry public welfarism and still maintain—even *emphasize*—our concern for the less fortunate in our society.

1. Public welfare destroys the personal relationship and interaction which can be achieved through private, local charity. Big government is faceless and cannot express truly empathetic concern for the needy. The human element so essential to aid the poor is sacrificed to computerization.

2. It actually destroys a true sense of genuine charity among the general populace. Charity today is coercively maintained. How many times have you heard complaints about excessive taxation? And what accounts for a very large percentage of our national debt? I used to work in a grocery store and constantly overheard grumbling from the shoppers who were having to pinch their pennies when they observed a heavily loaded shopping cart of choice items being paid for with food stamps. Not only are ill feelings fostered but also there is provided an excuse to shift responsibility when private charities appeal for funds:

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"The government has the resources. They will handle the situation."

3. It destroys, through excessive taxation, the capacity of private citizens and organizations to help. Personal income is eroded through redistributive tax schemes, thus leaving fewer funds for personal charity. Remember the recent uproar over the enormous increase in the Social Security tax? There goes some more money that could have been available for private charity.

4. It undermines personal responsibility and incentive in the poor to help themselves. Welfare funds are addictive. Withdrawal is hard.

5. It promotes a false sense of security among the needy. "The government will always be there to take care of me." "My Social Security will always be available to help me financially." According to the Federal Statement of Liabilities issued by the Treasury Department, the Social Security program has about $4 *trillion* in *unfunded* obligations! That's security?

6. It promotes a false sense of equality among minorities. They can either be led to believe they are getting their "fair share" or that they are receiving "remuneration" for past offenses against them. Dependency does *not* promote equality.

7. It is less efficient than private charity. Private, local charity is true charity: it is voluntary and it is not subject to the bureaucratic filtering process. I have never heard the government or any of its programs praised for efficiency—except by the government and those who head the programs!

8. It promotes conflict among groups clamoring to get their hands on the handouts. Though theoretically (in a Keynesian economic system) fiat money could supply everyone with plenty of money, actually there is at least some restraint upon the government's printing press (thank goodness for election years!). There is never enough money to make everyone happy; therefore, groups fight to get to the front of the line.

9. It can and often does encourage immorality. The government does not have the same degree of religious and moral sensitivity that can characterize private charities. Illegitimate children are one way to gain additional welfare funds. Or if you decide against illegitimacy, in most cases you can get a "free" abortion. Urban renewal programs have long been derided as consistently producing drug culture, crime infestation areas, and family disruption.

10. It is more open to fraud and criminal abuse than smaller, more easily contained, private charity programs. Newspapers are filled with reports of welfare abuse by criminal elements. This serves as an additional "tax" on the truly needy

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themselves: scarce resources are filtered away from their target.

11. It destroys the incentive to produce among the heavily taxed middle class. Success seems to be subject to undue fines (increased taxation).

12. It represents a large percentage of the federal debt that is monetized in the process of inflation. Price inflation erodes the wealth of the nation and will eventually break the back of the economy. I recall in our local newspaper an interesting—but not surprising—article on the economic plight of our area hospital. This plight was caused by governmental regulations related to welfare. It noted that Memorial Hospital gave "free" medical care valued at $1.2 million in 1973-74, $2.5 million in 1974-75, $4.1 million in 1975-76, and $4.5 million in 1977. The assistant administrator reported that "paying patient charges could be reduced by $50 a day if the hospital did not have to provide free care." There go more funds that could have been tapped for voluntary charity!

13. It is ironic that the expansionistic monetary policies of the government which are partly necessitated by welfare programs are not only hurting the general well-being of the nation at large but are especially hurtful to those on fixed incomes: the welfare recipients for whom we inflate in order to aid! The government is sadistic: it whips hardest the very people it supposedly wants to help.

14. It coerces medical personnel to give out "free" services as mentioned above. This not only raises prices for the non-welfare populace, but when medical programs are further expanded they cause medical shortages. England's socialized medicine is a case in point: England suffers from a doctor drain (they can live better elsewhere), over-crowded hospitals (free hospital care encourages hospitalization for light cause), increasingly inadequate medical attention (fewer doctors are serving larger crowds), and so on.

15. It increases statist power. That which controls your property and wealth controls *you*. A bigger government is more unmanageable, more susceptible to totalitarianism and tyranny. Thus, it aids and abets the erosion of liberty. Higher taxes cut down on what we are able to do, increased regulations (concocted by a powerful state) limit what we are allowed to do.

16. It unmasks "blind" justice. It coercively redistributes the wealth from some in order to favor others—all in the name of social "justice"! Discriminating justice is mandatory injustice.

17. It encourages an increased ignorance in one of the most important areas of life in our population: economics. "Free" programs imply

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that wealth is "just there," profits are evil, shortages are contrived, lunches can be free. Our population already suffers a woeful ignorance of economic theory, without interventionist politics setting a bad example.

Yet despite these problems and others that could easily be multiplied, there are certain functions which government could properly perform to care for the needy.

First, the central feature of the government is power. The purpose of this power is to insure the law and order necessary for economic stability and growth. As F. A. Hayek has written in *The Constitution of Liberty:* "There is probably no single factor which has contributed more to the prosperity of the West than the relative certainty of the law which has prevailed here." A wealthier people can better support the needy. The government can promote wealth through law and order.

Second, the government could abandon its redistributive schemes, reduce the burden of direct taxes and inflation, and leave to productive individuals the means and the incentive to help their less fortunate neighbors. Charitable giving is much more efficient than coercive redistribution.

Third, the state can use its judicial power to prosecute criminal and fraudulent abuses of charity.

The state *does* have a concern for the welfare of its population. The only legitimate way and the best way to care for the poor is through encouraging charity in the private sector by the three-fold method outlined above.

IDEAS ON LIBERTY

Secure and Enduring

LET us determine that we shall not allow the state to be our master, but that we shall be the masters of the state. The long road of history is lined with the ruins of those states which bought the souls and wills of their peoples by the lure of a granted security, and then led them to ruin by the same mirage. The world does not need one more such ruin. It needs a people who will be really secure and enduring, as far as mortal life is possible—secure and enduring because each member of the society is a person who accepts his and her responsibilities as duties, and asks only that the state act to keep the avenues of freedom open.

RUSSELL J. CLINCHY, "Two Paths to Collectivism"

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Edmund Burke and His World

IN THE THIRTIES, when the word "revolution" was being bandied about, Peter Drucker threw cold water on some of the more lively controversies with his observation that the American Revolution was not a revolution at all. It was, he said, a conservative counter-revolution, fought by the colonials to preserve their rights as Englishmen. King George III, a German, was the real revolutionary.

What Drucker, a Viennese, was trying to tell us should have occasioned little surprise. For it was all in Edmund Burke, whose famous speech on the need for Britain's reconciliation with the American colonies we had read in school. Burke regarded the stand of the embattled farmers at Lexington and Concord for what it was, a desperate attempt to hold on to "English liberties." There was no desire to overturn society, to institute a new order.

In the semantic battles of the Thirties, however, we had forgotten that words, over the decades, can come to mean their opposites. Liberalism had come to connote government compulsion. In her engaging biographical study of *Edmund Burke and His World* (Devin Adair, 143 Sound Beach Ave., Greenwich, CT 06870, 232 pp., $12.95) Alice P. Miller provides an antidote to semantical giddiness: her hero fought against the tyranny of verbal abstractions all his life. It is fitting that Russell Kirk, whose study of Burke was the centerpiece of his trail-blazing *The Conservative Mind,* should contribute an intro-

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duction to Mrs. Miller's book, for Kirk, in his war against "defecated intellect," carries on a struggle that is essential if we are to avoid being done in by the abstraction-worshiping ideologues.

But even Russell Kirk, in using the word "conservative" to describe Burke, has added a bit to the semantical confusion. For Burke, in his own historical setting, was a Whig. His antithesis, Dr. Samuel Johnson, was a Tory, and Tories, in England, are usually regarded as conservatives. Since "Whig," in its original Seventeenth Century connotation, meant "horse thief," and "Tory" meant "outlaw," the precise difference between the two great English parties becomes a little mysterious. But Alice Miller, with her own Burkean gift for seeing things in terms of their concrete settings, helps dissipate the mystery. The Whig members of Parliament in Burke's day included, besides great landowning aristocrats, the new city interests. The Tories were the rural squires. The Whigs believed in keeping the monarchy in its place. The Tories were often blind supporters of the king.

Enterprise and Liberty

Burke, as a Whig, belonged to the new world of Adam Smith. He understood enterprise. Who, better than he, has characterized the New Englanders of the Eighteenth Century as they carried on the whale industry? "Whilst we follow them among the tumbling mountains of ice," he said, "and behold them penetrating into the deepest frozen recesses of Hudson's Bay and Davis's Straits . . . we hear that they have pierced into the opposite region of polar cold . . . Nor is the equatorial heat more discouraging to them than the accumulated winter of both the poles. We know that whilst some of them draw the line and strike the harpoon on the coast of Africa, others run the longitude, and pursue their gigantic game along the coast of Brazil. No sea but what is vexed by their fisheries, no climate that is not witness to their toils."

The intimate connection between enterprise and liberty seemed plain to Burke. So, in his own world, he was a civil libertarian, which set him apart from Tory conservatives. He happened to be a Protestant, but his mother was a Catholic, and in his youthful experiences in Ireland he had seen too much of the baneful consequences of religious prejudice. The time would come when he would draft for Parliament his Catholic Relief Bill, which would allow Catholics to inherit or buy land and to teach in school without risking life imprisonment. The so-called Gordon Riots which followed passage of Burke's bill tore England apart, and it was characteristic of Burke that, although he did not

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condone rioting in any form, he worried that the rioters might be punished too severely.

Support of the Colonists

Burke had attended a Quaker school before going to Trinity College in Dublin, and he had the proper Quaker abhorrence of intolerance. The England of the Gordon Riots might seem a pretty intolerant community, but what strikes the modern reader of the Miller book is the comparatively relaxed attitude that governed in Parliament while the American war was going on. As a partisan of the colonists, Burke risked the imputation of treason. But this did not keep him from insisting that all acts concerning America since 1763 should be repealed. It would be wiser, he said, to make peace with the Americans and allow them to carry even some unreasonable points lest they turn to England's old enemies, France and Spain, for help. The principles of the Americans, he said, "bear so close a resemblance to those which support the most valuable part of our constitution, that we cannot think of extirpating them in any part of his Majesty's dominions, without admitting consequences, and establishing precedents, the most dangerous to the liberties of this kingdom."

Unable to raise troops in England to fight the colonists, King George III had to hire Hessians from Germany. Burke had scathing words for the war zealots who were willing to fight to the last Hessian. "They have all the merit of volunteers," he said, "without risk of person or charge of contribution; and when the unfeeling arm of a foreign soldiery pours out their kindred blood like water, they exult and triumph as if they themselves had performed some notable exploit."

Limited Government

Tom Paine mistook Burke's feelings about the American war for being a generalized sympathy for revolutionists of any stripe. So Burke's immediate condemnation of the French Revolution came as a surprise to Paine and his friends. They hadn't pondered Burke's words about "the extreme of liberty." Liberty, he had written, "must be limited in order to be possessed. The degree of restraint, it is impossible in any case to settle precisely. But it ought to be the constant aim of every wise public counsel to find out by cautious experiments, and rational, cool endeavors, with how little, not how much, of this restraint the community can subsist; for liberty is a good to be improved, and not an evil to be lessened."

Burke accurately predicted the course of the French Revolution, which ended in a military dictatorship that plunged all of Europe into

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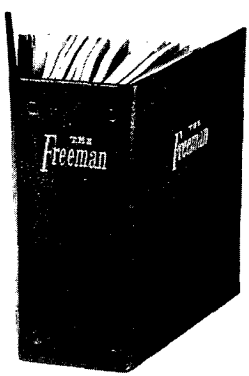
almost two decades of war. The claims of the "National Assembly" to represent all the people of France did not impress him. "A government of 500 country attorneys and obscure curates," he said, "is not good for 24 millions of men though it was chosen by eight and forty millions, nor is it the better for being guided by a dozen of persons of quality who have betrayed their trust in order to obtain that power."

So Burke, the Whig, ended as a conservative—but only as one who would "conserve" the liberties (always spoken of in the plural) that our fathers, in Kipling's phrase, had won for us "long and long ago."



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